THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 77, No. 4 November 24, 1945

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly; The Investors Guide, Adjustable Stock Ratings, issued monthly; and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Cover Photo by *Charles Phelps Cushing*

C. G. Wyckoff, President and Treasurer; E. A. Krauss, Managing Editor; Eugene I. Foley, Vice President; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe it to be accurate. Single copies on newsstands in U. S. 50 cents, Canada, 55 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE—$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, B. C. 4, England.

Cable Address—Tickerpub

WITH THE EDITORS

Tackling Our Problems

THESE days an editor's chair is not an easy one. In fact, it rarely is the comfortable sinecure that many people seem to think it is. The editors of the Magazine of Wall Street, in the first days following the end of the war optimistically entertained the hope that their job of interpreting the events of a peace-time world in terms of economics, business and finance would be somewhat easier than it was in the years of conflict. Alas, it isn't. Their job today is, if anything, more demanding of their skill and judgment than ever before. So much of importance is happening all over the world, that the responsibility to our readers of placing the proper emphasis where it belongs is keenly felt by our entire staff. To the vast welter of foreign and domestic news, political happenings, stock market trends, and corporation plans and undertakings, we are sincerely trying to apply our best talents, to the end that the Magazine will provide our readers with a most informative and thought provoking medium. Our mail encourages us in the hope that our efforts on that score are not without avail. Be assured that we at the Magazine are not static, either in our thinking or our planning, and new features will be introduced and older ones revised from time to time, seeking always to serve your best interests.

It is a good idea occasionally to "get away from it all" and rest your mind and body in surroundings wholly different from those of your daily life. One of our editors recently did just that. After months of hard work, he decided to spend a week chopping wood. That doesn't sound like a very restful vacation, but nevertheless, he reported the effects to be very gratifying. There is something about wood chopping, apparently, which inspires philosophical thinking, and our editor was no exception. He reports that at the end of the week it struck him that it might be a good idea if a lot of people indulged in a little honest wood chopping, figuratively, and if instead of worrying and griping, they pitched in and went to work—corporations too, as well as individuals. They might well find, surprisingly, the solution to their conflicting problems in a comparatively short time. Perhaps our editor has something there.

And we have something in this issue.

Under the title "Can Inflation be Controlled Today," E. A. Krauss has written an illuminating discussion which no reader will want to overlook. One often hears reference to "controlled inflation." Washington politicos, many of them, seem enthralled with the idea. If you want to know whether or not it is practical, and what it may mean to you, we strongly commend this article to you.

Recent sessions of the stock market have featured intense speculative interest in low-priced utility stocks. For months this group has been all but dormant. What has happened to revive public interest in them is discussed in the article entitled "Low-Priced Utilities Reappraised." It is of unusual timeliness.

Another very timely feature, by Henry L. Blackburn, on "How to Minimize This Year's Taxes" has numerous suggestions of which investors will want to avail themselves.

In addition to his regular fortnightly market article, A. T. Miller has written a special survey of longer range factors affecting the stock market. It is done in Mr. Miller's usual lucid style and his conclusions are backed by careful and thoughtful reasoning. This article appears on page 186.

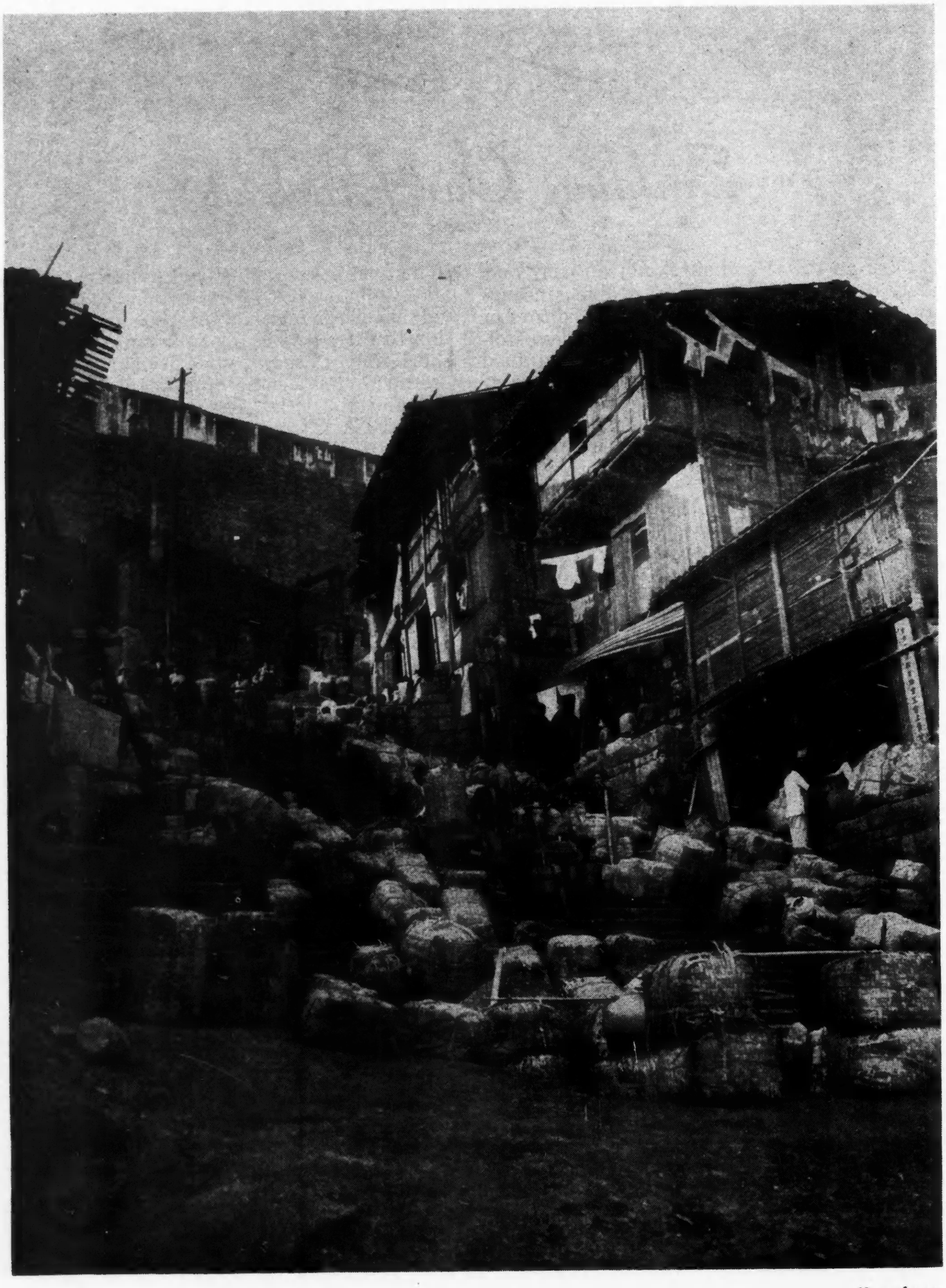
"The Meaning of Britain's Trade Agreements with Europe" is the subject of a searching article which discusses these trade agreements in relation to their importance to the American businessman. The author's, V. L. Horoth, grasp of foreign economic subjects is well known to many of our readers, and all of them should find this discussion very enlightening.

☆☆☆☆☆☆ IN THE NEXT ISSUE ☆☆☆☆☆☆

Capital Goods Shares vs. Consumer Goods Shares
By Richard Colston

The Quest for Foreign Oil
By H. M. Tremaine

Postwar Evaluation of General Electric
By Hamilton Owen

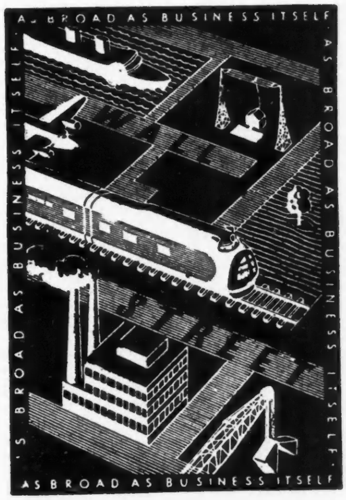


Alexanderson

Chungking — emergency capital of the Chinese Nationalist Government, typifies the dire straits in which unhappy China finds herself. This picture shows how badly needed merchandise is being brought up to the city from the river front. All goods arriving there must be carried up the steps into the city on the shoulders of coolies.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* E. A. Krauss, *Managing Editor*



The Trend of Events

WE APPLAUD . . . The award of the Nobel Peace Prize to Cordell Hull is a fitting tribute to the work of a man whose unswerving devotion to the cause of peace and international goodneighborliness has long been apparent to the world. The award takes particular recognition of Mr. Hull's efforts towards establishment of the United Nations Organization, his determined drive to bring the nations of the world together in a working unit to guard against future aggression. Although ill health forced Mr. Hull to resign as Secretary of State before the United Nations Charter was adopted at San Francisco, he is often referred to as the "father" of the peace organization. With expert hands he guided the formulation of the American draft of a Charter; with consummate tact he won the bipartisan support for the proposal.

Mr. Hull's services in the cause of international cooperation were many and varied during the nearly twelve years that he headed the State Department. He was a strong proponent of improving relations between the U.S.A. and the Latin American countries and worked hand in hand with former President Roosevelt to establish and develop the Good Neighbor policy. He was the originator of reciprocal trade treaties by which he sought to combat economic nationalism, a matter always close to his heart. Persisting in this effort, he worked out over the years agreements with many nations until the reciprocal trade policy came to be generally regarded as one of the most far-sighted and constructive ever adopted by this country in the field of foreign economic relations.

Throughout his distinguished career, Mr. Hull was ever a man of peace. It is but natural that the cause of peace is now, as it was then, close to his heart. In acknowledging the award, Mr. Hull declared that the struggle for peace must be intensified and broadened if the human race is to be preserved in this new and dangerous atomic age. This, he said, is the task of the people of all nations; it calls for continued unity, friendly understanding and common effort among the United Nations. His own lifework provides a shining example of how this may be done.

THE LABOR-MANAGEMENT CONFERENCE . . . Up to this writing, the President's Labor-Management Conference has done precious little to lift the heavy pall of skepticism that surrounded it from the start. The outbreak of the Lewis-Murray feud (Nuts — And nuts to you) started proceedings off on a level of statesmenship, on the part of organized labor, that must have cured a good many illusions — if such were held — about what could be accomplished. At the same time, it left industry considerably more cheerful about the net result on public opinion which is showing definite signs of annoyance with labor's attitude and tactics.

The Conference produced other curious results. John L. Lewis has never been management's friend. Yet Mr. Lewis, in the course of the proceedings, made such an impassionate plea for the freeing of industry from price control that management delegates declared it was the best defense of free enterprise they ever heard. Neither wages nor profits,

Mr. Lewis said, should be tied to a Government formula.

So far, the Conference has done little more than revealed the divided conditions in labor's own house, and dissipated management's fears of being ganged up upon and saddled with the onus of the conference's failure to work a miracle. Such a maneuver, if it were attempted, would now hardly succeed. The best that can ultimately be expected is some agreed-upon procedure to end jurisdictional strikes. That would be a worthwhile achievement but hope for it is fading. The Conference is limping along, apparently anxiously trying to avoid the basic issue.

HOW NOT TO DO IT . . . A recent proposal before a Congressional Committee that all OPA price controls be removed not later than February 15, 1946 points up a flaw that such action — if it were carried out, would share with the new interim tax law only just signed by the President. If there were a good chance of Congress acting favorably on termination of OPA controls as of a nearby date, many producers would hold up shipments until controls are off, just as not a few of them are doing now to avoid excess profit tax payments.

In the radio industry, for instance, leading makers report what amounts to a "management sitdown" by major suppliers which has been holding down assemblies to a minimum. Similar complaints are heard from certain other fields where tax winnings and price possibilities are pursued through such tactics. If the habit should persist, as many fear, few reconversion goods will appear on the market before early next year.

It is a prospect that suggests strongly that the current experience be taken into consideration when deciding on ultimate termination of price controls. Due to the provisions of the tax law, those now "holding back" can afford to operate at a loss during the remainder of the year, recouping by means of tax refunds. But once volume production is under way, as it eventually will be if only for competitive reasons, sitdown tactics will hold fewer incentives.

HAPPY HOLC . . . With a profit of $14 million registered for the fiscal year ended June 30, officials of the Home Owners Loan Corporation are more inclined than ever to predict the eventual winding up of their program without loss to the Government. During the thick of the depression, the agency extended aid to more than a million hard-pressed home owners who were facing foreclosure. By tiding these accounts along until conditions improved, it has demonstrated the soundness of a central discount agency. Nearly 500,000 accounts have been paid off and the number of repossessed houses currently on HOLC's hands has been cut to 550.

This is indeed a notable record, far better than anyone would have dared prophesy a few years back. Needless to say, wartime prosperity had a good deal to do with it; without it, HOLC's experience might have been vastly different, with corresponding loss to the Government — and the taxpayer.

Pressure was recently brought to bear on Congress to liberalize further the terms of FHA mortgage insurance. A bill just introduced would reduce the down payment on new homes costing up to $5,000 from 10% to 5%, and the maximum maturity of such insured mortgages would be extended from twenty to thirty-two years. So far, experience with FHA mortgage insurance has been excellent but realty values were consistently low over the past decade and building activity remained moderate. We are now entering an era of inflated realty values and an expected record volume of new home construction. Necessarily, greater risks will attend mortgage lending under such conditions.

This prospect calls for considerable caution in lowering standards for FHA mortgage insurance. Building costs today are high and real estate values are soaring; these new conditions rather than FHA's excellent past record should be taken into account in deciding this matter if ultimate disappointments and heavy losses are to be avoided. This warning applies to every kind of mortgage lending. Overlending in the current abnormal real estate market can only lead to disaster with losses akin to those which accompanied the decline of values in the Thirties.

COMMON SENSE OIL POLICY . . . There is good news for those who have been concerned about the war-time drain on our petroleum resources. A recent authoritative survey discloses that this drain, huge as it was, has been fully offset by new discoveries and that our potential domestic oil resources are such that for many years to come, no one need worry about our supply.

In the past, some Government officials have proposed that domestic petroleum production be limited in order to conserve proven reserves for future emergencies. Current consumption needs would then have to be supplied in considerable part from imported needs. Were we certain that our domestic resources were headed for rapid exhaustion and could not be replenished, this suggestion would have merit. But such is not the case.

In view of this, the outline of a national petroleum policy recently undertaken by Secretary Ickes strikes one as a sensible middle course between the twin extremes of sole reliance upon domestic reserves and a policy of turning immediately to imported oil to satisfy a large part of domestic consumption. His suggestions call (1) for stimulation of domestic exploration and promotion of efficient use of known domestic reserves so as to "strech" them as long as possible. And (2), he favors action to assure ourselves of access to foreign oil resources so that they may supplement our domestic supplies *when and if they are needed.*

Essentially, this is in line with the views and objectives of the American oil industry which fully recognizes that a plentiful supply of petroleum is indispensable for national defense and a prosperous domestic economy but also favors certain policies to promote exploration and development of new domestic resources. One of them is that there should be no tampering with revenue law provisions, notably existing provisions for depletion allowances that now encourage drilling for oil. Were drilling costs, as has been suggested, to be prorated over the life time of a new oil well, (rather than deducted from earnings as they accrue), it would certainly tend to restrict domestic drilling activity. It would mean a definite setback to our goal of remaining self-reliant in the matter of our oil supply.

As I See It!

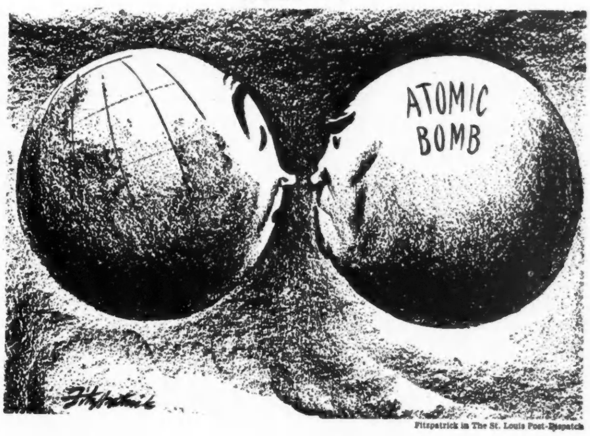
BY ROBERT GUISE

TO THOSE WHO LOVE PEACE . . .

IT IS a significant fact that whenever one attempts to analyze and discuss world conditions, wherever one begins and whatever turn one takes, thoughts inevitably lead back to Russia and her role in today's scheme of things. It would be highly monotonous, were it not so terribly important and above all, so inexorable. Fact of the matter is that there is virtually no phase of international life, no aspect of the world of tomorrow and of the vital problem of conserving peace, where Russia and her policies do not enter, where the Russian shadow doesn't obscure the outlook.

The enigma of Soviet policies and intentions must have loomed large during the latest conversations between Messrs. Truman, Attlee and King, following as they did the recent Moscow - London duel which unfortunately left basic conditions largely unresolved. With the Washington talks over, they still are. Not only that but as a result of the joint statement on atomic energy, Russian distrust appears to have been growing and if surface indications have any meaning, the gap between the western allies and Russia is wider than ever.

"WELL——?"



Fitzpatrick in The St. Louis Post-Dispatch

Absence of any sign of Russian willingness to resume world cooperation seemingly bears the responsibility why the joint statement on atomic energy proved something of an anti-climax. It has changed nothing but merely has the force of a proposal by three of the United Nations to the other powers and as such requires not only acceptance but cooperation as well. And as far as Russia is concerned, such cooperation appears not yet in sight. Mr. Molotov's recent statement . . . "we will have atomic energy and many other things too . . ." is still ringing in the ears of the international audience as the last word heard from that quarter.

To those who love peace, it is daily becoming painfully clearer that only in wholehearted and friendly cooperation lies the answer to the stupendous problems confronting the world, and assurance that the world will not dissipate its energies in a fantastic atomic energy race, the logical ending of which can only mean the end of our present-day civilization—if not far worse.

But instead cooperation, what do we see today? Political issues affecting Eastern Europe remain unresolved mainly due to Soviet recalcitrance; nothing indicates that following the fiasco of the Conference of Foreign Ministers in London, conditions for resumption of world collaboration have been reestablished. Russo-American differences concerning control of Japan constitute another sore spot. The situation in China has reached an explosive—and climactic — stage, threatening grave complications for our Far Eastern policy. It is obvious that the Sino-Soviet Pact, once widely hailed as a real step toward better understanding, was nothing but a facade behind which Russian penetration of North China was to be undertaken. In this area, Chinese communists are rapidly consolidating their position; already the Chinese press voices fears of China's becoming another Spain. Elsewhere, in the Mediterranean, vital political problems continue to hang fire, contributing to fears and uncertainties in that region. Nowhere along the long line of disagreements has there been evident any willingness on the part of Russia to reappraise differences and try new approaches to an agreement.

Some profess to see ahead — however faintly — a mild clearing of the international weather and, despite the delays arising from the complexity of any negotiation with Russia, some hope that another effort at mutual understanding may bear at least limited fruit. Such an effort undoubtedly will be made, in fact, the ground has already been prepared. President Truman in his Navy Day speech openly stated . . . "there are no conflicts so deeply rooted that they cannot be resolved . . ." Secretary of State Byrnes recently went as far as declaring that . . . "we have sympathized with Russia's interest in establishing friendly associations along her western boundaries." But perhaps most significant an indicator of our willingness to meet the Russians more than half way is (*Please turn to page 237*)

MARKET TRENDS IN THE MAKING

On the current technical evidence the line of least resistance still appears to be upward, although increasing manifestations of uninformed speculation are somewhat disturbing. We favor a middle-road policy, holding some cash in reserve and emphasizing stock values in both holdings and purchases.

BY A. T. MILLER

THE fact of additional net advance over the past fortnight, both in our composite weekly indexes and in the Dow-Jones averages, implies that the line of least resistance in this market is still upward. However, as best shown by the daily averages, the movement has become more irregular. As compared with August-September, the rate of gain has slackened greatly and the corrective recessions develop more frequently. True, the latter do not amount to much so far. Nevertheless, the market has become less of a one-way street.

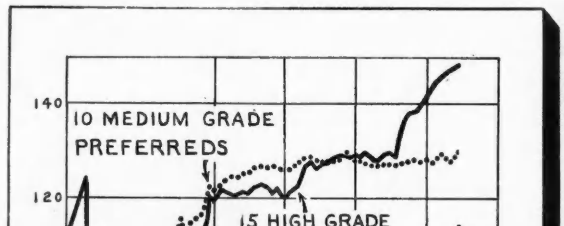
There are a number of considerations which appear to lend some support to the case for a less aggressive, and more selective, bullishness for the medium-term, by which we mean the next one to three months or so, however attractive may be the long term possibilities, as discussed in some detail in a following special article. They are:

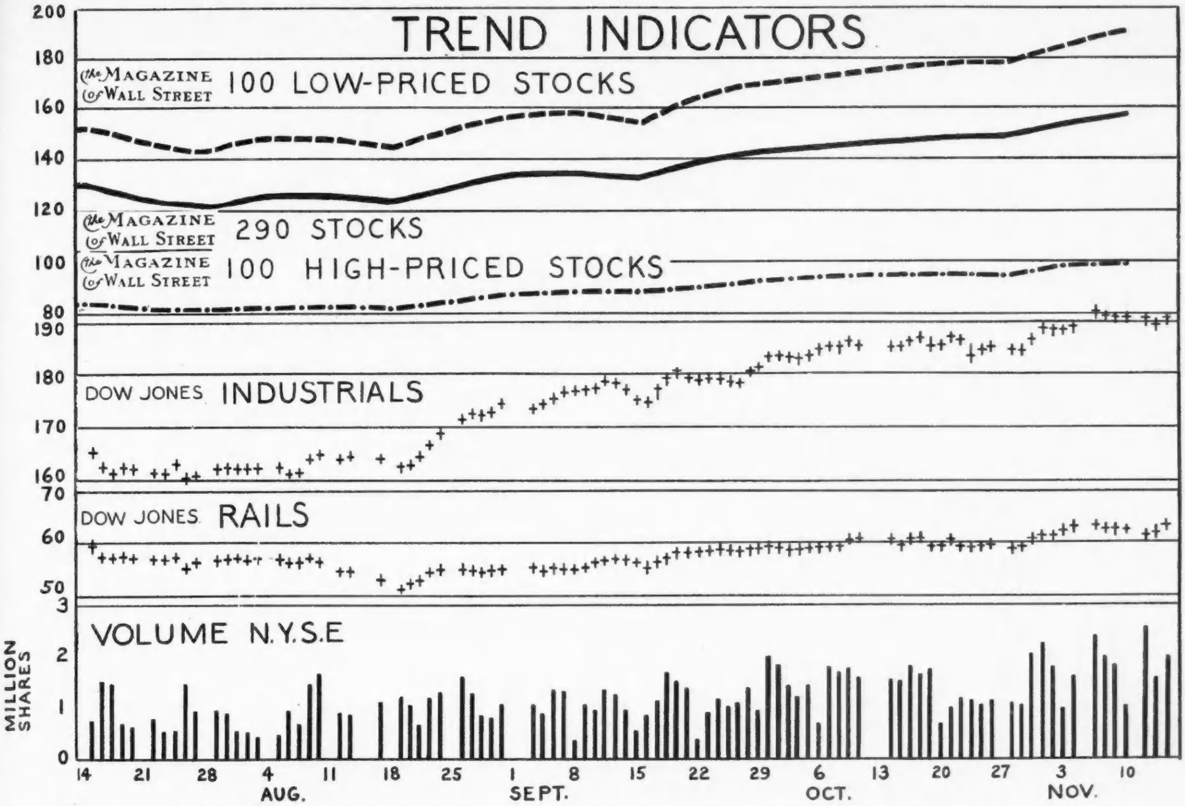
(1) The composite price index has risen around 30% in the response to peace and expected postwar prosperity, and even the slower-moving Dow industrials have advanced some 20%. This is above-average speed for the current bull market, or any other bull market, in relation to elapsed time. There is a law of compensation—of action and reaction—in the market which can not be very long denied. The compensation in this instance might be a trading-range pause or some degree of reaction. Although there is no suggestion of the latter in the technical evidence as we go to press, it would be unusual, after so concentrated an advance, if a downturn within a matter of weeks at most did not put the averages at least under present levels, even should they go higher meanwhile.

(2) For a variety of reasons, the market is thinner than in the past. Many stocks can move sharply either way on relatively light transactions. This has made for spectacular recent gains in numerous instances. The reverse could be true should something happen to dampen bullish sentiment. This risk is potentially aggravated by a considerable volume of stop-loss orders placed by investors who are reluctant to increase their tax liability by acceptance of additional 1945 profits but who are equally reluctant to risk seeing any important part of profits cancelled in an intermediate reaction.

(3) Although their immediate significance may be open to question, there are some earmarks of "blow-off" excess in the market. Volume is the largest in some time, with many sessions above the 2-million-share level. As measured by the ratio between gains in the averages and daily volume, there has been some loss of vigor. That is to say, the supply of stock for sale is in somewhat closer balance with demand, even though the latter is yet dominant. Brokers report a considerable deterioration in the quality of the buying. Many of their most bullish customers today are people who could not be interested in stocks in 1942-1943 when they were far lower in price.

(4) Although the backbone of the market still centers in the surplus of genuine investment cash seeking employment, the speculative fringe which inevitably develops in every bull market is becoming much more pronounced. Much of the increase in volume, in fact the major part of it, is due to speculative buying of low-price stocks which are also on the low side in long term earning power. Among recent typical examples of this are Commonwealth & Southern, United Corporation, Callahan Zinc, Alaska Juneau, Graham-Paige, Packard, Equitable Office Building, American Cable, South American Gold & Platinum, Zonite Products, etc. Radically speculative stocks can tumble sharply in





price, regardless of the fact that cash is paid for them.

(5) It is hard to see dynamic stimulus for the market in the probable news environment of the next several months, possible to see the advance shadows of sobering events. The two great things to which the market had so long looked forward are now accomplished facts. They are the end of war and corporate tax relief. The latter is so broad that it seems to end any possibility of further important lowering of corporate tax rates for a long time to come. True, the better earnings which the 38% tax rate will permit are still ahead, but they have been substantially discounted by all stocks, undoubtedly over-discounted by some stocks.

Whatever the reasons, production in the reconversion industries has not expanded as rapidly as had been expected two months or so ago. In some manufacturing lines, headed by automobiles, earnings can hardly make very bullish reading for the first and second quarters of 1946. If one can take the current utterances of the C.I.O. leaders at face value, a show-down between labor and managements in the auto and steel industries can hardly be deferred much longer. Frankly, we are not at all sure what the market's response might be.

To sum up point (5) it seems to us that further advance in the market would probably have to be despite the news environment, rather than with any positive help from it. We do not argue that serious strikes in key industries would necessarily be a valid reason for market reaction, but it must be noted that they might very well serve as a plausible excuse for just that, given a technical position weakened by several months of fast advance and growing speculation in many inferior stocks.

What about the other side of the picture: the favorable elements or possibilities in the medium-term outlook? There are some. For one thing, the leading auto and steel concerns are, for the first time, making a united stand against unreasonable union demands and making some demands of their own which the public and Congress probably will accept as reasonable: demands that employees do an honest day's work and that unions live up to their contracts. In short, it is not only a question of how much industry might lose in the coming show-down. There is at least a possibility it may gain a quid pro quo.

Second, promises of more tax-relief legislation in 1946 are already being heard, with chief emphasis on individual income tax rates and on a modification of double-taxation of distributed corporate earnings. The latter movement, if it appears to gain headway, would incline investors even more against taking profits at anything near prevailing prices.

Third, the threat of a profit-squeeze during the remaining life of OPA applies to a minority of industries in the manufacturing lines. In other fields there are considerable numbers of companies in line for excellent earnings gains on the 38% tax rate immediately with the turn of the year, and among these can be found stocks which are still rather attractive on careful analysis.

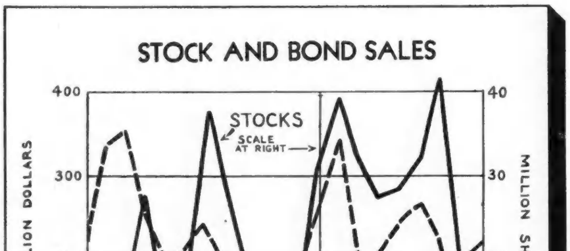
We conclude that a compromise market policy is indicated: neither bearish for the medium-term nor all-out bullish. It should be a middle-road policy, keeping a reasonable amount of cash in reserve and emphasizing individual stock values both in holdings and purchases. —Monday, November 19.

SPECIAL *Survey* OF LONGER RANGE *Market* FACTORS

PART II

THIS bull market has been running for more than 42 months. That makes it one of the longest on record. From the low point of April, 1942, it has lifted this publication's weekly index of 290 stocks — a more realistic measure of the market than the Dow average of 30 high-priced stocks—by approximately 280%. That makes the rise one of the greatest on record, second only to that of 1924-1929. The index is now almost 30% above the 1937 high and only 9% under the 1929 high. In other words, a further percentage rise equal to about one-twentieth of that already seen would put it to the 1929 peak.

Of course, the summary is substantially different for the so-called leader-type industrial stocks such as are typified by the Dow industrial average and our weekly index of 100 high-price stocks. The Dow average has risen about 105% from its last major low, is roughly 1% below its 1937 high, is about 49% under its 1929 peak, and duplication of the latter would require a further advance of about 98% or not very much less than the percentage rise heretofore seen.



Whatever way you look at it, the vital question at the present time is not what the market may do next week or next month. It is: How much longer might the bull market last, and how high might average stock prices go? Investors who have large profits in stock bought at lower levels are keenly interested in this question because, reluctant as they are to take profits which are subject to a 25% capital gains tax, they certainly do not relish the thought of possibly "taking a round-trip" ride into the next bear market. For obvious reasons, those having idle cash to invest are equally concerned now with long term market potentials.

No doubt intelligent investors know that it is not possible for anyone to answer the question with complete assurance. They know from experience that the relationships of market prices to business activity, to earnings and to dividends are all variables; and that the price level at any major turning point is determined more by "sentiment," which is not subject to any precise measurement, than by statistical considerations. For example, in 1929 the average level of the Dow industrial average was approximately 44 times the average dividend on those 30 stocks, whereas in 1937, the next peak market year, it was only 20 times the average dividend.

All this article can do, then, is to explore the pros and cons as objectively as possible, and try to arrive at sensible conclusions in approximate, rather than specific, terms.

To begin with, the historic approach is a fallible guide. That is, every bull market is an individual entity and no two have ever been alike except in the broadest generalities. Variations in life span and percentage movement have been very wide. Previous peaks are interesting reference points, but little more than that. For example, the market in 1926 had passed all previous upside reference points and, on that basis, could have been considered at an extreme level—yet the rise continued for another three years.

Of themselves, the 1937 and 1929 highs of the Dow industrial average, or any other average, are scarcely more reliable "indicators" of the possible top of the present bull market than any other numeral one might pull out of a hat. Neither the conditions of 1929 nor those of 1937 are the conditions of today. There are differences in the supply of money, in the supply of stocks available for purchase, in earnings and dividends, in long term interest rates, in the relationship of average stock yields to yields on high-grade bonds, in the purchasing value (in terms of commodities) of the dollar, in the tax rates to which dividend income and capital gains are subject, in the mechanics of the stock market as affected by SEC regulation and margin rules, and in the political-social conditions of the country. Sup-

posing one were wise enough to calculate the right allowance for all such changes, as compared with 1929 or 1937, in appraising the longer-term market outlook, that would still leave the imponderable of confidence.

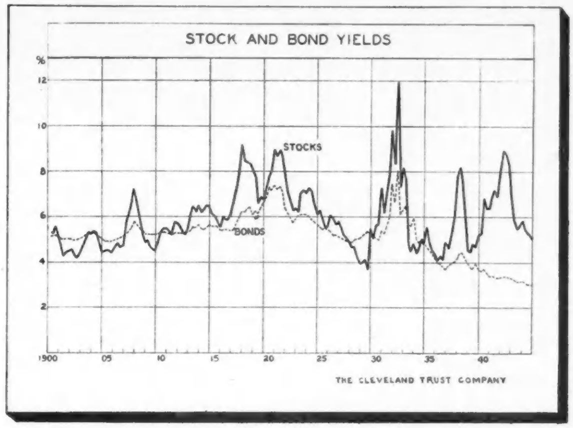
Are people likely to feel more or less optimistic than they were in 1929? If so, by how much? Neither question can be answered; and to answer the second one, especially, is an obvious impossibility. There is only one thing of practical helpfulness—and not a great deal of that—in the historic approach. Stock prices are materially above past *average* levels. Although that tells us nothing about how high they may go, it should remind prudent people that bargain-day has been put far behind, that the risk factor has been importantly increased, and that both watchfulness of trend evidence and careful study of individual values are increasingly essential.

Since the historic approach throws so little light on the question with which we are concerned—the duration and scope of this bull market—we must look elsewhere: not for unqualified answers, which can not in any event be arrived at, but for evidence suggesting reasonable possibilities, if not probabilities. There is so much of this that the difficulty is to correlate it in order of apparent importance.

Perhaps as good a starting point as any is the potentiality for betterment in average earnings and dividends over the next couple of years. It is definitely favorable, in the writer's opinion, and it is a pretty strong argument for a further rise in stock prices. There is considerable uncertainty, of course, about profits — though mainly in the reconverted manufacturing industries — during the remaining period of Federal price control. We are looking beyond that in this article. The pressures for termination of Government war powers are steadily mounting and will prove irresistible. It appears most improbable that OPA will have any say on industrial prices after next June 30. Given free pricing and favorable volume—the latter is, of course, assured for an extended period to come—past experience proves conclusively that industry can make excellent profits at any conceivable level of hourly wage rates. Indeed, the long term ratios of labor costs and of profits to the sale value of output has been remarkably stable.

Both to simplify the discussion and keep it geared closely to the stock market, we are going to talk about earnings on the Dow industrial average. Certainly earnings trends and market trends have had a significant relation in all previous peacetime bull markets, even though never an exact one. Though it went to an untenable extreme on margin buying, the great 1924-1929 bull market was founded on something more than hot air. Earnings in 1924 were $10.52 a share on the Dow industrial average, about equal to the long term average. They rose to $19.31 a share in 1929. At that year's market peak, the price approximated 20 times earnings. From 1934 to 1937, the earnings figure rose from $4.68 to $11.41: and at the 1937 market high the price-earnings ratio was 17.

Last year, with the excess profits tax in effect, earnings on the Dow average were $10.07 a share, again approximating the long term average. It seems to the writer that $14 would be a minimum expecta-



tion in the current prosperity cycle, and that $16, or thereabouts, is more probable. We can now make some hypothetical projections. Applying the 1937 (peak) ratio of 17 times earnings, on earnings of $14, the Dow average might go to 238 (about 46 points over the present level); on earnings of $16, it might go to 272 (80 points over the present level).

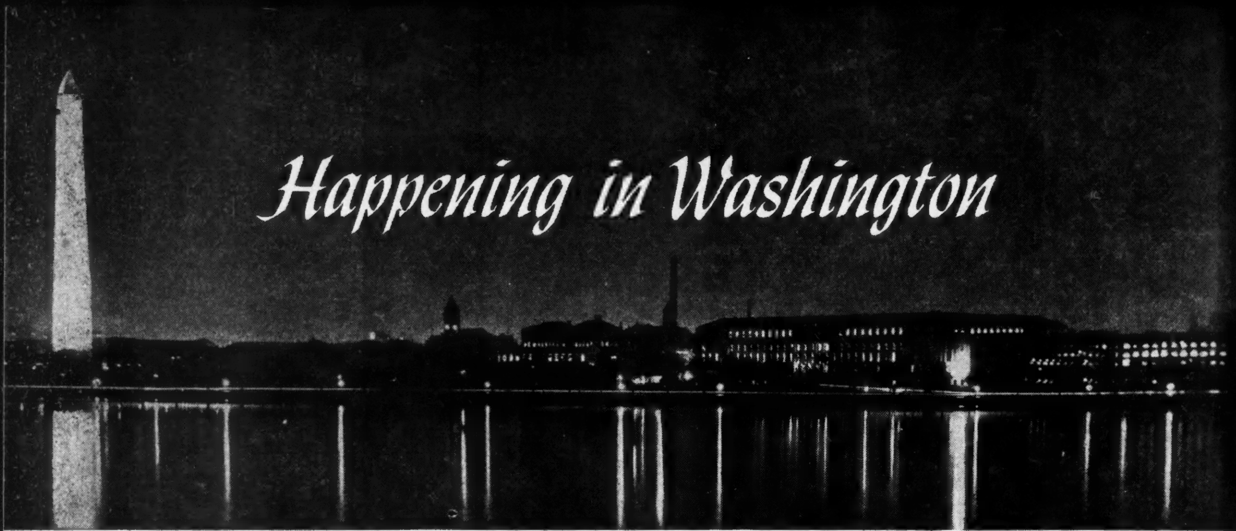
Of course, we don't know whether earnings, at the top of this bull market, will be capitalized as highly as in 1937. It might be lower, it might be higher. That's partly a "confidence" matter. (We are, arbitrarily, forgetting the 1929 peak price-earnings ratio of 20.) It can be argued, with much logic, that earnings of the catching-up-boom period will be temporary, in a way like war earnings have been, and that investors may not, therefore, be willing to put a high valuation on them. Due to the ascendancy of labor and of Federal regulation, it may be questioned whether basic capitalist confidence will be as high as in the past. The writer would reply that the 1937 earnings were also temporary; that, with respect to political-social conditions, basic capitalist confidence was quite lukewarm then; and that finally, inflation sentiment, as was the case in 1937, could be a substitute for "confidence." So looked at, a duplication of the 1937 maximum ratio of 17 times earnings does not seem particularly fanciful. It is quite possible.

To sum up the reasoning thus far, earnings potentialities and market capitalization thereof could readily take the market substantially higher, possibly a great deal higher.

Now for the question of dividends. For a variety of reasons the tendency (in peacetime) is to distribute a higher percentage of earnings than was done in the recent past. In 1929, less than 37% of the earnings on the Dow industrial average was paid in dividends. The ratio was about 71% in 1937, nearly 68% in 1939. On an average, corporations are entering the peace period with unprecedented financial strength and liquidity. To expect a distribution of around 70% of earnings in the present prosperity cycle seems reasonable. Therefore, the dividend potentiality (applying our previous earnings projections) is $9.80 to $11.20 a share on the Dow industrials—call it $10 to $11 for easy figuring.

Current dividends are estimated at about $6.40, so the yield basis, with the (*Please turn to page* 230)

Happening in Washington



Cushing Photo

BY E. K. T.

ATOMIC BOMB is being figuratively tossed at business and industry. In current discussion of how to handle the shattering subject of atomic power, western legislators are proposing to congress that the municipal pattern be broken up, business, industry and population spread out into smaller units to make them less vulnerable. Back of it is the McCarran program for industrial decentralization which made no real progress under more prosaic reasoning. Congress is cold to the whole idea.

JOHN W. SNYDER, reconversion boss, may be the next top-level official to depart from the Washington scene. Intimate of the President for many years, he is convinced Mr. Truman doesn't have the confidence in him that the job requires — and with reason. The Chief Executive is taking counsel from Treasury Secretary Fred Vinson, has asked Vinson to handle many chores which actually belong in Snyder's agency, leaving the reconversion chief in a figurehead role. Vinson has asked to be excused from further performances "while Snyder stays." That won't be long.

WASHINGTON SEES:

The labor-management conference hardly could be staged against a worse backdrop, not only because the meeting, itself, was picketed by independent unions and on its opening day a strike tied up all tram and bus transportation here, requiring many delegates to walk to the Labor Department building, but also because novel theories of labor rights were popping up simultaneously in several parts of the country.

Andrew J. Higgins closed his New Orleans plants with a blast against labor and government "unity" against business, and the conference heard a suggestion which, in substance, raises the issue whether an employer has the same right as an employee to "throw up his job." Implicit in the suggestion that he may not quit is the contention that an industry, due to size and importance in the local labor market, somehow becomes affected with a public interest, is a public utility.

And the subject was dramatized by the action of pickets around Yale & Towne Manufacturing Company's plant who physically restrained the president of the company from entering the factory entrusted to his control by its stockholders. The situation differed from the Sewell Avery case in at least one major particular; in the latter instance the government had taken over the facilities under color of federal statute.

And while these things were going on CIO-AUW advanced its program, going beyond pay, hours and working conditions, to cover also profits and costs of sale.

MARITIME COMMISSION was caught napping when the government reorganization bill was being drafted, didn't apply for exemption from its merger provisions and now faces the prospect of being taken in with one gulp by the Department of Commerce. Operation under the aegis of Henry A. Wallace is not a popular setup in Washington, and Admiral Land is screaming, but too late. Among other things, Wallace will inherit the job of disposing of 165 million dollars worth of merchant shipping which is war surplus. Where and how he'll sell it will be left largely to his own discretion and Land is genuinely worried.

ORGANIZED LABOR has accepted congressional defeat on increased unemployment compensation, will battle the issue out on the state legislative level. AFL is fighting mad about it, has urged its membership, in effect, to milk the existing system dry. "In view of the stand taken by Congress," William Green says in a message to AFL affiliates, "unions should plan to utilize to the fullest extent the inadequate insurance available. Many administrators mistakenly regard the unemployment funds as the property of employers."

PRESIDENT TRUMAN faces the prospect of reversal on the military training bill unless there is a complete change of congressional attitude, and none is in sight. The White House went "all out" on the War Department's program to militarize the nation — a completely sincere objective but one which some important leaders on Capitol Hill have interpreted as a device to maintain a tremendous force and preserve high officer ranks. President Truman didn't take counsel with his legislative leaders and resentment is apparent "on the hill."

AS WE GO TO PRESS

Forthright statement by Herman W. Steinkraus, Connecticut industrialist, has jolted the management-labor conference out of its kid-gloves handling of the problems which brought it to the Capital. Petty bickering, jockeying for position by labor leaders ("Nuts," and "Nuts to you" exchanges between Philip Murray and John L. Lewis) had disgusted Washington, convinced observers here that no real progress would be made, even attempted. Steinkraus keynoted country-wide aspiration: "Let's get on with the job!"

Delegate to the President's conference, Steinkraus talked incisively and challengingly to an obviously hostile meeting: "Collective bargaining," he said, "is today under way between employers and employees in hundreds of plants and industries throughout the country, as most people know. The truth is that the only 'breakdown' in collective bargaining anywhere is a result of the manner in which it is being practiced, not in its principle or in management's acceptance of that principle."

Tossed into the teeth of labor's representation at the parley was this: "Management fully recognizes what the American people and employees of American industry really want, and is striving hard for industrial peace and real collective bargaining throughout America. We are here at the call of the President to do a job. That job, as we see it, is to find and outline ways and means of improving the practices of genuine collective bargaining. Let's get on with the job!"

Georgians are pleading with bureaus and agencies in Washington, in particular the military, to pull out of Atlanta and allow that city to reconvert to peacetime status. Invasion by wartime agencies, they say, has been almost as devastating to their economy as the earlier Federal march engineered by General Sherman.

Of the productive facilities in Atlanta, 23 per cent are now federally-owned with a like percentage of its warehousing so controlled. The result: paralysis of normal producing and distribution. Georgia's problem is not isolated, it is symptomatic of what other states are experiencing in varying degrees. But the southern state is pointing up the problem and, unless the military forces act soon, congress will.

New York City election results are taken by Washington observers to have dimmed the Presidential prospects of Gov. Thomas Dewey of the Empire State, regardless of whether he overcomes the municipal defeat and wins another term at Albany.

Also, the returns from that election have determined the program of Dewey's 1944 running mate, Gov. John Bricker of Ohio, his fellow Ohioans say. Buckeye State representatives in congress are clearing the field for Bricker to come to the United States Senate next year, giving him a national sounding board, offsetting the argument made against him that he is "provincial," paving the way for another try at the Presidency in 1948.

Caution is being urged by the Department of Commerce to corporations planning to enter into large-scale export trade. Analysis of the principal factors affecting saleability of merchandise is suggested by the government and the department has prepared a list of export specialties, with suggestions for selection.

Department of Commerce will promote foreign trade by publishing, weekly, lists of visitors to the United States and the commodities each is interested in buying. Channels of distribution will be classified under 100 commodity classifications. Commercial Intelligence Division has a file on more than 800,000 foreign firms and individuals engaged in international trade, available in World Trade Directory Reports.

Idle gesture is the considered opinion of Washington observers with respect to the congressional military affairs committee proposal to suspend a union from collective bargaining privileges for a year for violation of a no-strike agreement in its contract.

Such a regulation would mean only that these agreements would be eliminated from future contracts; therefore would have no vital relationship to the problems at hand. It merely rubs salt into labor's wounds, makes more difficult the enactment of constructive measures to facilitate the settlement of disputes. If the committee doesn't abandon the idea, it will run headlong into congressional opposition, defeat.

New business firms are multiplying in numbers which show the mortality statistics of the post-World War 1 have been forgotten already. In the first three months of 1945, 130,000 new firms opened up, only 50,000 closed their doors.

In the pre-war era, fewer than 100,000 new enterprises began each quarter. Retail and service trades are proving the principal attractions — hopes, obviously, are built upon increased production of civilian goods.

The transportation-communications-public utility group, wholesale trade, and the finance-insurance-real estate groups also are sharing in the general increase. Manufacturing, construction, and mining firms, on the other hand, reversed their early wartime trend and registered a decline numerically.

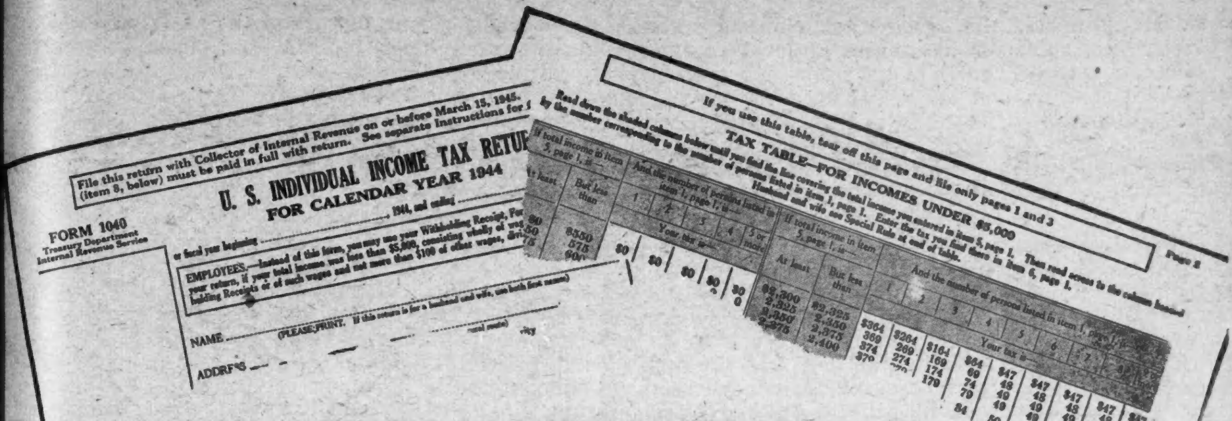
Guide for local industrial promotion is the purpose of a new pamphlet issued by the U. S. Department of Commerce and for which there has been great demand. It is designed for communities which want to continue war plants in peacetime operation, also for those localities which were bypassed by industry during the war. The guide outlines methods by which community leaders can determine what industries can suitably and profitably be developed, discusses their manning and financing.

Chester Bowles soon may quit the Office of Price Administration. Not a single major pricing policy proposed by him in recent weeks has met with general acceptance on Capitol Hill. Bowles is a born fighter but he has told intimates he believes he has outlived his usefulness in public life.

Reconversion has changed the OPA picture. The urge of wartime necessity no longer supports departmental rulings and they're resented today as retarding influences. But Bowles' departure won't improve the situation. OPA is saturated by the notion that producers have stored up surpluses, can draw upon them to absorb increased costs of production, do not need to pass those costs on. They're still talking "bulge costs."

Million new houses in the first post-war year has been abandoned as a goal. This won't come as a surprise to private industry — materials producers, bankers, builders — who never could see such a goal but likewise never could convince the government economists it couldn't be attained.

Best bet now is 350,000 new homes will be built in the next 12 months. Even that number will be reduced unless Congress adopts price policies to encourage investors. Official attitude now is that private industry can operate efficiently in the $5,000-and-under category but that government must have a hand, extend assistance, in the field above that figure. That reverses the long-held theory of federal aid only in the low-cost housing area.



HOW TO MINIMIZE THIS YEAR'S TAXES

• By Henry L. Blackburn

IN only a matter of weeks now another year will pass into history, and for most investors 1945 income taxes still loom large. While quarterly payments may have softened the ordeal, and many tax payers sleep soundly because they have conscientiously made a complete settlement for the year with the Bureau of Internal Revenue, fact is that between now and New Year's Day it may be possible for some to shave the final payment and for others to gain a credit on next year's tax bill.

To determine these potentials a more than casual study of security portfolios will be essential, and entirely aside from possible tax problems, never has there been a time more logical than now when shareholdings should be intelligently analyzed. After four years of wartime activity, industry is struggling through a labyrinth of economic and political posers to enter a new and most promising period in which the present line-up of its various segments and individual concerns may undergo significant changes. Upon skillful revisions of portfolios now, therefore, may depend the longer term potentials for attainment of the most satisfactory income or appreciation. During this process, considerations of income tax may tend to color judgment through lack of understanding of this very complex subject, and where very large amounts are involved or income stems from numerous media our advice is to personally consult your own tax expert. For investors less affluent, however, this article is intended to clarify the tax angles as simply as possible under the obvious limitations imposed.

Human nature being what it is, changes of any kind often seem very distasteful, but to a large class of investors avoidance of shifts in securities becomes almost an obsession, regardless of potential profits or losses. True, constant portfolio adjustments are inadvisable except for speculative programs and they always involve expenses for commissions and transfer taxes, not to mention bother and uncertainty as to reinvestment, but these adverse factors are often minimized by more important opportunities or potentials to enhance income, "nail down" profits or accomplish substantial savings in income taxes. Far too often investment thinking fails to recognize the very close relationship between stock certificates and cash, the ready interchangeability of the two establishing a near similarity in viewing one's wealth, and as a result consideration solely of income tends to petrify an investment program. Equally hampering to successful progress is the state of mind which precludes conversion of paper profits into cash or refuses to correct instances where paper losses have occurred. Because most investors are constitu-

Suggested Substitutes for Issues Sold for Tax Purposes

	Recent Price	Current Dividend	Yield
Air Reduction	49	$2.00	4.1%
American Snuff	49	2.00	4.1
American Tel. & Tel.	191	9.00	4.7
Atlantic Refining	40	1.62½	4.1
Beatrice Creamery	48	2.05	4.2
Bayuk Cigars	43	2.00	4.6
Bower Roller Bearing	58	2.50	4.3
Central Aguirre Ass.	23	1.50	6.5
Continental Oil	36	1.50	4.1
Crowell Collier Publ.	71	3.00	4.2
Eaton Mfg.	64	3.00	4.7
Helme, George	88	4.00	4.6
Kroger Grocery	47	2.00	4.2
Lambert Co.	42	2.00	4.7
National Biscuit	32	1.20	3.7
Ohio Oil	19	1.00	5.2
Phelps Dodge	36	1.60	4.4
Pullman	64	3.00	4.7

tional optimists, the more that climbing prices verify their personal astuteness or luck, the more reluctant they become to budge from their presently assured attitude, and sometimes because of a vague knowledge that their gains, if realized, will become taxable. The same hopeful background that paper losses may be regained without action often negates a legitimate chance to reduce the next check made out to the tax collector, as a potential saving may importantly offset taxable gains or ordinary income.

On the premise that security holders are willing to inspect their current portfolios with cool judgment at this significant period and after checking prices discover what their stocks represent in terms of cash, decisions as to retention or substitution of this or that stock for reasons of quality, income or potential appreciation can be reached by the simple formula "Would I buy this stock now if I had the available funds?" When it comes to consideration of income tax angles, next step is to ascertain accurately the exact purchase date and cost of each stock, including commissions and transfer taxes, segregating possible repetitive purchases of a single issue. By listing these figures in conjunction with those previously suggested, it will be an easy matter to note potential gains or losses, should wisdom dictate disposal of the various stocks, but care should be taken to divide the stocks into two groups, those held for less than six months and others owned for a longer period.

Proper application of the Capital Gains Tax is so complicated that at times pressure upon Washington to abolish it has been heavy. Opinion also differs widely as to the equity of defining profits arising from sales of personal property as taxable income, but the Supreme Court has decided that the procedure is legal, so that's that. Fact is, however, that aside from securities, transactions in real estate, antiques and a long list of other items add complexity to the picture, and to the already highly involved provisions of the law have been added numerous revisions. Deductions for losses additionally make the picture confusing, as they are not only restricted in definition but variable in application. From some quarters in Wall Street, complaint has been made that the tax hampers trading to some extent, thus in turn affecting the traditional liquidity normally strong feature of the stock exchanges. On the other hand, the tax has importantly benefitted many people cognizant of its advantages, and as coming revision of the entire tax system involves so many more important issues, chances are that for several years to come, at least, the law will remain mostly in its present form. Certain "carry forward" provisions of the law which we will discuss later would make its retention seem very desirable.

Stocks in Which Many Holders Have Losses That Could Be Established for Tax Savings

	1937 High	1939 High	1940 High	1944 High	Recent Price
Alaska Juneau	15¾	10	7	7⅝	7¾
American Radiator *	29½	18⅜	10⅝	12⅞	16⅝
American Encaustic Tiling	13½	5⅜	3¼	4⅝	7¾
American Smelting	105¾	63	54	43½	59⅜
American & Foreign Power	13¾	3⅝	2⅜	5⅞	6⅜
Anaconda Copper	69½	40	32	29¼	39½
Barnsdall Oil	35¼	19½	13⅜	18⅜	23⅛
Bethlehem Steel	105½	100	93¼	66⅝	95¾
Baltimore & Ohio R. R.	40½	8¾	6⅜	13¾	24¼
Boston & Maine	15¾	4⅞	2¾	7¼	9
Bullard	45¼	30	36	20⅞	30¾
Crucible Steel	81¾	52⅝	47⅝	37¼	47⅞
Continental Can	69⅛	51¼	49¼	43¼	46
Callahan Zinc & Lead	6⅛	3¼	1⅞	1¼	3¼
Gair, Robert	15⅜	5⅞	5¼	5¼	9¾
General Cable	32½	18	11⅞	7⅝	12
Holly Sugar	43½	21¼	16½	19¼	30⅛
Inspiration Cons. Copper	33⅛	21	15⅞	12¾	15
Jewel Tea	87⅛	89½	52	38⅝	43¾
Liggett & Myers "B"	113¼	109¾	109½	86½	98½
Magma Copper	63	40	38	22⅝	21¼
Mathieson Alkali	41¾	37⅜	32¾	24⅞	29
Myers, F. E., & Bro.	71	52	53	53¼	63
New York Central R. R.	55¼	23¼	18⅞	23⅝	30⅝
New York Shipbuilding	12¾	14	29	23¼	20⅝
Packard	12⅜	4¾	4⅛	6½	8⅛
Parke Davis	44¾	47	44½	31½	34⅞
Procter & Gamble	65½	66	71¾	59	65¾
Reynolds Metals	30⅞	14¾	15⅞	16¼	28⅝
Reynolds Tobacco "B"	58	45	44	35⅞	39⅛
Symington Gould	17⅜	7⅜	7⅜	8	11⅛
Twin City Rapid Transit	17½	3¾	3¼	9⅞	12½
U. S. Steel	126½	82¾	76½	63⅞	81⅜
Virginia-Caro. Chemical	12¾	5¾	4⅛	5¼	6⅜
Walworth Co.	18¾	9¼	6½	10⅛	13¾

Capital gains or losses resulting from sales of securities held for less than six months must be carefully listed upon the income tax return in a special space allotted and as the tax basis differs for short and long term holdings, held for less or more than 6 months, due provision is made for listing the two categories. Primarily, short term gains and losses are taken into account on a basis of 100%, whereas those resulting from longer term holdings are accountable at only 50%. If the net result of these combined tabulations shows a loss, to the extent of not more than $1000 or your net income, whichever is smaller, a deduction before estimating the tax is allowable. If the net loss exceeds $1000, the balance not used may be carried forward to offset capital gains established during the ensuing five year period but must never exceed these gains in any one year. Additionally, you may apply $1000 of the unused loss to reduce taxable income from other sources in the next five years but not to exceed this sum. To take full advantage of these "carry-over" privileges it is wise to check back and ascertain whether you have overlooked some net losses created in previous years which through disuse could now be applied to this year's income, for losses sustained in 1942, for example, might prove of value as late as 1947.

If by chance your net short term gains exceed net long term gains in any one year the above process of arriving at the tax is unchanged, that is to say the former will be added in full to your ordinary income and half of your long terms gains will be similarly treated. But if the net long term gains are more than the net short term losses, an alternate method of figuring is permissible which may save the taxpayer some money. In this particular situation simply compute the tax upon your ordinary income first, add (*Please turn to page* 223)

CAN INFLATION *BE CONTROLLED* TODAY?

• **By E. A. Krauss**

WITH the wage-price problem in the foreground of political and economic debate and action, the question of inflation has once again moved into the spotlight of public discussion and concern. More than ever it is in everyone's mind. Almost daily, we hear and read dire warnings against the inflation peril. And a great peril it well could become if left unchecked, for next to war, a severe inflation is the greatest curse that can come to any country.

The question today is not: Shall we have inflation? Inflation has been with us ever since the start of our enormous wartime bank credit expansion. The big question is: How much more inflation? Can it be controlled? And aptly perhaps: Will it be controlled? Are we heading into a genuine and severe inflationary cycle? With danger signals rising on all sides, these questions are not merely academic.

Credit expansion continues unabated. The money supply remains extremely large in relation to the volume of available goods. The rise in living costs has not been checked. Wage rates are being pushed higher, threatening a dangerous wage-price spiral despite "hold-the-line" intentions. A creeping rise is under way in commodity prices. Property values have been soaring; securities prices are getting further out of line at least with current earnings. The public debt is still headed upward despite sharply reduced military expenditures and fairly sizable budgetary deficits will be with us for some time to come. Simultaneously, taxes are being reduced, a factor which together with rising wage rates is further adding to the money supply in the face of scarce goods. And there is every evidence that the official prescription for postwar prosperity includes another dose of "controlled" inflation.

There are of course counter factors, one of the most important being the deflation of industrial activity in the wake of termination of war orders and the prospect of at least temporarily sizable unemployment. But by and large, the balance points heavily toward inflationary rather than deflationary pressure.

No one can deny that the prevention of any substantial inflation thus far has been a remarkable achievement, virtually unprecedented, for in all earlier wars we have experienced far greater price inflation than during the latest conflict. It was due not only to prompt and effective institution of controls such as rationing and price ceilings but admittedly also to the remarkable steadiness and common sense of the public at large, plus industry's (and agriculture's) ability to maintain an amazingly high volume of consumer goods production. However, the fact that controlled inflation has not got out of hand does not prove in itself that control can be successful indefinitely. We have more or less cheerfully accepted control measures in wartime which never would be long tolerated in peace.

Actually, our inflationary experience in recent years has been largely of the budgetary type, leading to credit expansion. It represents merely one stage of inflation, produced by heavy sales of Government securities to the banks. Despite increasing taxation and large bond purchases of non-bank investors, the banks have had to participate substantially in the successive war loans, adding fuel to

the inflationary flame.

The second phase of the inflationary process which is the advance of prices, has been held in check by a system of price, wage and ration controls. Without these, the price trend would certainly have been similar, probably in excess of the trend witnessed during the first world war. Today, with controls relaxed and increasingly under attack, the price front is wavering. With it, the second phase of inflation is threatening to run its full course, yielding to the immense accumulation of pressure. In the interest of economic stability, this must be avoided at all costs. That is fully realized all around, in and out of Government. But the big problem is how to keep the lid on the boiling kettle without spoiling the broth, that is without retarding or circumscribing postwar recovery and postwar prosperity.

Indicative of the pressure that threatens to blow off the lid is the simple fact that we have today almost four times the purchasing power that we ever had in good times. At the same time, there exists less debt to worry about or offset the financial liquidity of both business and individuals. It doesn't matter that much of this purchasing power was coined, so to speak, out of our greatly swollen national debt; the pressure potentials remain though eventually there will no doubt be a reckoning. In the meantime, not only do people have plenty of spending money but they also need things badly, that is the things they could not buy during the war. Hence it is inevitable that there will be a scramble for goods and certainly some tension in the price structure, possibly for as long as two years until the goods supply begins to catch up with demand. To ease the tension and keep the price line from snapping, it is suggested that certain price controls should be extended until demand-and-supply are in better balance. Today, this line of reasoning is under increasing attack on the grounds that further control will retard recovery, and an apparent conflict in Administration policies does nothing to clarify the picture.

The Administration is found in the middle of a tug of war on how to forestall inflation. On the one hand, it is clearly following a policy of inflation by advocating sizable wage increases; on the other hand, it insists on holding the line. This apparent paradox reflects a double motive—to prevent inflation and at the same time sustain mass purchasing power and get industry quickly into mass production. It will be fine if it can be done but many doubt it. To hold two objectives is always dangerous and the consensus is that the pressure created by higher wages on prices is bound to find soft spots in the price line, eventually widening the breach or snapping the line. It is a bold policy not only because of the underlying concept but also due to the fact that even at best, success or failure will importantly depend not only on Government moves but on the attitude and cooperation of business and the American people. This is a factor that holds the key to the entire inflation problem, far more so relatively than any given set of restrictions. It means, also, that the effective way of curbing inflation is the hard way, including sacrifices or some waiving of momentary advantages on the part of virtually all economic groups, as well as individuals.

Comparative Merits of Various Inflation Hedge Mediums

(in order of merit)

- Gold
- Common stocks
- Commodities
- Real Estate
- Jewelry, art treasures, etc.
- Usable personal property

BEST HEDGES AMONG COMMON STOCKS

- Gold shares
- Other mining shares:
  - Copper
  - Lead
  - Zinc
  - Coal
  - Other metals
- Commodity shares:
  - Oil
  - Sugar
  - Fertilizer
  - Paper
  - Certain chemicals
  - Integrated steels
- Growth industry shares
- Rapid turnover companies
- Shares of companies with high book values, if representing extensive and productive property ownership
- Leverage shares

As the National City Bank of New York in its latest monthly letter aptly puts it, the responsibility of working out a sound price structure belongs to everyone; it cannot be done successfully by arbitrary authority. The Government of course has the greatest responsibility since it is maintaining controls over prices and wages wherever prices would be affected by wage increases. It must strike a proper balance between the twin objectives of holding a stable price level and facilitating and encouraging production. Business in turn has the responsibility of setting prices at levels which will achieve maximum output and distribution of goods, and must seek profits in volume rather than exorbitant margins. Labor has to realize that it faces new conditions, that the wages industry can pay for peacetime work are limited by what consumers can pay for the product, and that in the long run this will be the governing factor. Ignoring it would mean only a short-lived advantage. The public can contribute to stability by exercising restraint, by refraining during early transition from buying what is not urgently needed until supplies become more abundant.

Thus, when searching for an answer whether inflation can be controlled, we must also ask ourselves to what extent we are willing to cooperate. Our economic organization, all segments and groups, must work as a team with the primary object first to produce at lowest possible prices, to supply the markets—thereby absorbing inflationary pressure, to keep down the cost of living and promote general economic stability. All this presupposes establishment of equitable and practicable cost-price relationships. If ceilings are broken and prices pushed up, there is inevitable danger of an inflationary spiral fed by the excess money supply and by speculation, inventory accumulation and hoarding, until

Typical of the Chinese inflation is this recent scene in a bank. Note the abnormal amount of currency in use.

Alexanderson

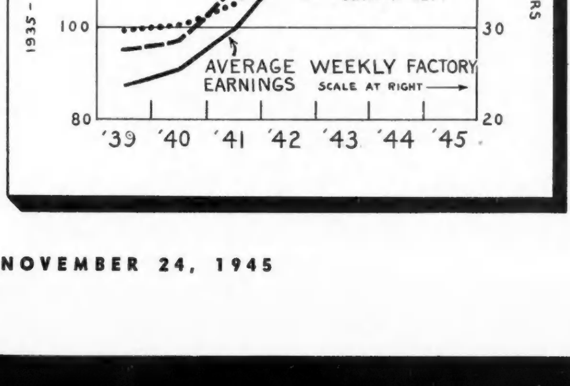
the structure collapses through fundamental weakness and excesses as in 1929 and 1921.

Similarly, interruption of production by strikes feeds inflation by diminishing the goods supply and prolonging scarcities at a time when such supply is grossly out of proportion to public purchasing power, when the main hope of maintaining stable and orderly markets is rapid increase of supply. This explains the overriding importance of industrial peace at the present stage—not only in the interest of employment but, perhaps even more important, because we can ill afford to rock our economic structure, already exposed to extraordinary transitional and inflationary influences.

All hands agree, that in the fight against inflation, probably our best weapon is industry's enormous productive capacity, well proved in war and our most effective inflation brake in peace. Inflation feeds on shortages, and production is the answer to shortages. But production alone will not do the trick—not effectively anyhow—unless constructive policies prevail in other areas.

This leads us to the all-important question of fiscal policy, the urgent need of returning as speedily as possible to a balanced budget to escape major difficulties and far more pronounced inflation of our credit system. The remedy lies not only in curtailment of Government spending to obviate the need of deficit financing but in the necessary evil of continued substantial taxation, for not only do we have to cope with a record-breaking national debt but with peacetime "normal" budgets running at some $25 billion annually.

From the standpoint of inflation potentials, this set-up contains lots of inflammatory material, thus "fighting inflation through taxation" is a good slogan however distasteful the process may be to the taxpayer. In the end it will be to his advantage. Unfortunately, prospects of an early balanced budget are none too good since further strains will be placed on the Treasury by expenses directly growing out of the war, not to mention domestic spending programs of no mean scope. Not until 1949, in the estimation of some observers, may we have our first normal postwar year with a balanced budget though earlier dates have been mentioned. In the interim, whatever the actual date, credit expansion is bound to continue.



Indubitably, we need for national prosperity a high level of consumer income without which our national debt would hardly be bearable without courting severe deflationary — or inflationary — trends, depending on our approach to the debt problem. But inflation, whether controlled or not, will hardly prove a satisfactory method of obtaining it, and the purchasing power theory of which we hear so much makes sense only within reasonable, workable limits. Carried to excess, it must defeat its professed purpose, and under the program to which the Administration appears to be leaning, there is exactly that potential danger.

Some of the advocates of controlled inflation contend that we must have a higher price level in order to create a national income high enough to make our debt supportable. The rub is that higher prices in themselves do not mean prosperity. The latter can not be measured in money but in things which money will buy. Today, for instance, there are fantastic quantities of money in such countries as China, Greece and many other inflation-ridden areas. But instead of prosperity, there is dire poverty, and the greater the supply of money, the more difficult the control of inflation.

To return to our original question: Can inflation be controlled? At the present stage, the answer, unequivocally, is yes, provided that the proper policies prevail. It will necessitate rapid progress toward maximum production, a stable price-wage policy, continued substantial taxation and less Government spending to scale down and ultimately wipe out budget deficits, and, importantly, the proper mental attitude by all segments of our economy. It is a formula that is easy to prescribe, difficult to administer. The current strife surrounding the price-wage dilemma attests to it. And it will not be feasible without continuance of certain controls at least during the most dangerous (*Please turn to page* 240)

PROJECTING FULL YEAR'S EARNINGS
FOR INDIVIDUAL COMPANIES

—on basis of transitional influences as revealed in latest financial statements

• By Ward Gates

THIRD quarter earnings reports continue to add weight to appraisals of the industrial upheaval throughout the country resulting from terminated hostilities and the consequent contraction of military demand. Had VJ-Day arrived six weeks earlier or later, earnings for the September quarter would have reflected more consistently the results of industrial activity before or after that historic date, but as it is, the figures only partially reveal the impact of reconversion. While fourth quarter reports will tell a more complete story, those now coming to light disclose marked trends, at least, as a basis for gauging potentials for the full year 1945 and to some extent they provide clues to expectancies for 1946.

Chief impact of cancelled Government orders naturally has been felt by concerns importantly engaged in military production even after some measure of change-over following VE-Day. So many manufacturers were included in this category that more frequently than otherwise, earnings for the September quarter continue to verify the downward trend discussed in the previous number of the magazine, based upon a much smaller group of concerns. Similarly, while a dip in net has resulted for a majority—in fact nearly two thirds of all important companies thus far reporting, the balance either held net close to the level of the previous quarter or in many cases succeeded in establishing substantial gains. Thus strong cross currents have developed, in the main attributable to variance as to activity, although a divergence is noticeable now and then in earnings trends of concerns in the same group.

It should be realized that termination of Government contracts on a broad scale temporarily upset schedules for a major cross section of industry, for in addition to producers of armament and munitions, suppliers to the Armed Services of innumerable other goods such as clothing, food and a long list of non-durables felt the impact of cancellations, too. According to figures compiled by the National City Bank of New York and appended to this article, covering 320 leading concerns in 15 industrial categories, third quarter net income gains measured by groups accrued only to wholesale and retail trade, petroleum products and some miscellaneous manufacturers, whereas in the other twelve classifications used, a decline in net was evident. Viewed in its entirety, the record adds up to a net shrinkage of 10.1% in earnings for the September quarter. The percentage quoted of course will require revision when further reports come in, as many large concerns remain to be heard from; but beyond almost any doubt the downward trend in net earnings will remain clear in the final analysis.

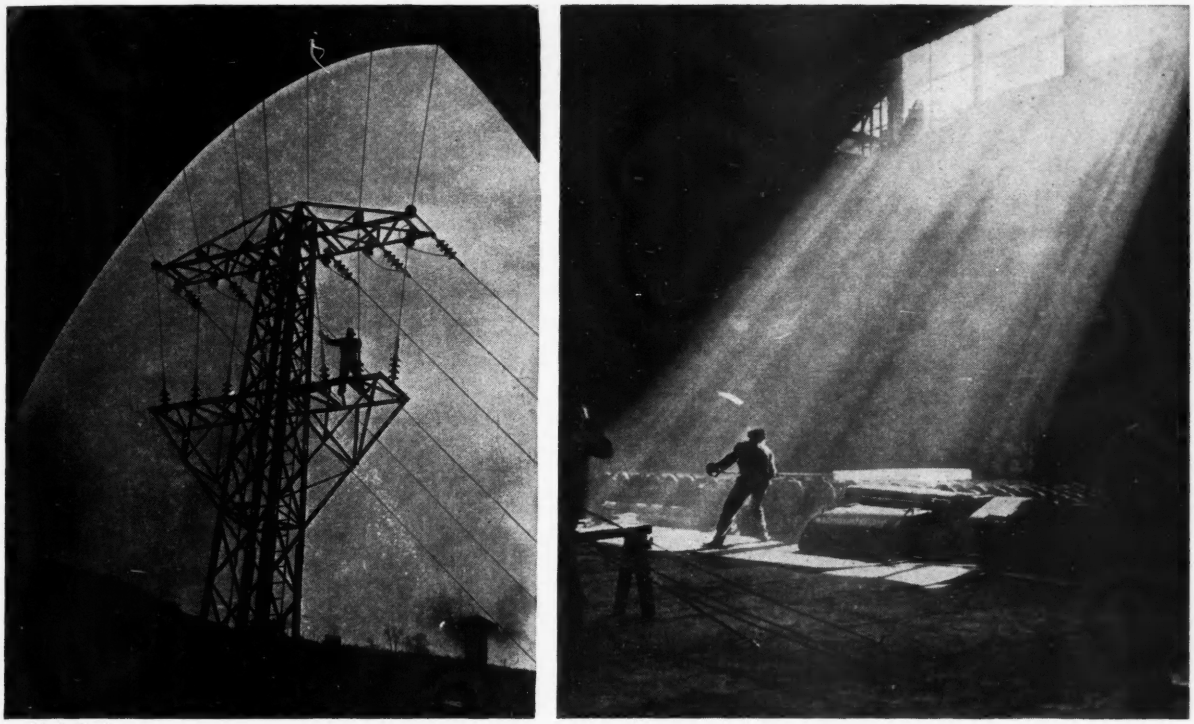
In the tabulation mentioned, the effect of declining earnings during the last quarter upon previously accumulated net reported for the first six months of the year has served to average down the nine months total, but in comparison with net for the relative period in 1944 the figures still are encouraging. 1945 net of five manufacturing groups from January through September shows a gain over the corresponding record for the 1944 period for these segments of industry, and after giving due consideration to declines registered by seven other groups, a net average gain of 2.8% appears. This heartening statistic, however, is minimized by the fact that had it not been for a major gain of 21% by the petroleum producers, a substantial shrinkage would have resulted for the entire group. But statistically, no "ifs" are permissible although it is pertinent to point out that one group was largely responsible for carrying the ball. With its gain eliminated, third quarter net of all groups covered would have been

Net Income of Leading Corporations for First Nine Months, 1944-1945

(in thousands of dollars)

No. of Co.'s	Industrial Groups	Net Income Third Quarter 1945	% Change	Net Income Nine Months 1945	% Change
26	Food products	$19,283	—1.2%	$62,520	+6.9%
12	Textiles and apparel	1,816	—12.3	7,804	+8.3
16	Pulp and paper products	5,545	—1.2	16,660	—0.9
35	Chemicals, drugs, etc.	45,106	—14.9	143,668	—1.6
13	Petroleum products	50,348	+1.6	159,937	+21.0
15	Stone, clay and glass	7,490	—19.4	26,188	—8.8
24	Iron and steel	29,081	—17.4	106,545	+1.4
9	Electrical equipment	18,128	—17.9	60,224	—3.7
23	Machinery	4,638	—17.3	18,090	—11.1
18	Autos and equipment	4,144	—45.2	20,249	—14.7
52	Other metal products	25,191	—11.0	80,555	—3.0
22	Miscellaneous mfg.	9,990	+6.9	28,726	+5.9
265	Total manufacturing	220,760	—10.7	731,166	+2.8
29	Mining and quarrying	13,204*	—11.1	38,990*	—5.1
16	Trade (whol. & retail)	7,220	+10.2	19,541	+13.2
10	Service	2,641	—0.9	7,702	—5.8
320	Total	$243,825	—10.1	$797,399	+2.5

*—Before depletion charges in some cases.
Source: National City Bank



U. S. Steel

Men at work — in time of peace as well as war. From linesman to steel worker all industry is a highly skilled, and at time, dangerous job.

down 13% and a 1% decline for the nine months period would have appeared.

At the end of July 1945, the index of industrial production used by the Federal Reserve Board stood at 211, declining to 187 during August and dipping further to 172 at the end of the September quarter. That the latter figure did not reflect a more drastic slump is attributable to September gains over August of output in the fields of textiles, iron and steel, paper, coal and manufactured foods, for many concerns proved their ability to take up the slack of declining military demand quite impressively by falling back upon their accumulated backlogs of civilian orders; and when these latter involved products very similar to those formerly sold to the Government, it was found possible to sustain production at an encouraging level. On the other hand, where reconversion problems were more serious or required complete overhauling of plants, as in the case of the automobile industry, both output and sales slipped off with varying impact upon net earnings.

So much has been said in the daily papers about the drastic termination of military contracts that some of our readers might naturally have concluded that Government orders had become a minimum factor in weighing reported net earnings for the September quarter. In this connection, a recent study of the situation made by the Securities and Exchange Commission may occasion some surprise. According to this report, sales of 175 corporations totalling $4.6 billion in the third quarter period included $2.6 billion to the Government, or 56% of the full amount. While unfilled war contracts of 132 of the concerns under discussion had shrunk from $6.5 billion at the start of the quarter to $1.4 billion as of September 30, a substantial amount remains still uncancelled although on balance, Government orders most assuredly will show further declines during the final quarter of the year. Among large concerns starting the December quarter with sizeable as yet unterminated war contracts are U. S. Steel—$142.9 million and Sun Oil—$23.4 million. Many other concerns have similar large amounts of military orders on their books but do not segregate them in reporting. Compared with wartime peaks, however, the importance of these rapidly shrinking military backlogs becomes less and less significant, except in a few instances such as the aircraft industry. During the September quarter, though, they had an important bearing on earnings reported by certain concerns.

Sales by U. S. Steel during the third quarter amounted to $385.6 million, of which $222 million were of a military character. Relative volume of Bethlehem Steel was $321 million, including war sales of $235 million. For Standard Oil Co. (N. J.) war sales of $124 million made up a goodly part of the total of $318 million, and for du Pont, military sales were $54 million out of a total of $150 million. These few instances are cited to show how in three important industries, steel, oil and chemicals, Government business continued to swell volume in varying degree during the period under discussion, the respective percentages having been about 66%, 40% and 34%. An electric manufacturer, General Electric Co., sold an even higher percentage (83%) of its products to Uncle Sam. As tighter pricing on sales to the Government is one factor that usually tends to restrict net, these percentages therefore are interesting to note in view-

Comparative Earnings of Leading Companies

	Net Per Common Share			
	Third Quarter		Nine Months	
	1945	1944	1945	1944
General Motors	$ .78	$ .90	$3.20	$2.68
New Jersey Zinc	.55	.66	1.92	2.04
Sterling Drug	.63	.51	2.11	1.82
White Sewing Machine	def .01	.07	.27	.34
Electrolux	.17	.06	.59	.25
Federal Mining & Smelting	.55	1.65	3.10	4.00
Continental Oil	.80	.46	2.69	1.87
Harbison-Walker Refr.	.26	.26	.82	.82
Midland Steel Products	.41	.69	1.79	2.04
Allegheny Ludlum Steel	.42	.69	1.98	1.93
Coca-Cola Co.	1.75	1.69	4.34	4.39
Sharon Steel	.26	.24	1.58	.64
National Steel	.92	1.21	4.04	3.66
Pennsylvania-Central Airlines	.81	.62	1.67	.76
Kimberly-Clark	.67	.84	2.62	2.94
Radio Corp. of America	.12	.11	.42	.31
Youngstown Sheet & Tube	.89	.96	3.12	2.76
Checker Cab Mfg.	.45	.05	1.06	1.81
General Foods	.58	.41	2.02	1.40
Inland Steel	1.23	1.53	4.43	4.70
Mack Trucks	.78	1.37	3.23	3.65
Norwich Pharmacal	.22	.21	.65	.64
Skelly Oil	2.13	1.91	5.46	5.38
Allis-Chalmers	.55	1.33	2.45	3.51
Commercial Credit	.60	.68	2.00	2.19
Commercial Solvents	.20	.30	.68	.74
Marshall Field	.45	.42	1.56	1.27
Packard Motor Car	Nil	.08	.07	.22
Sylvania Electric	.52	.53	2.11	1.37
Crown Cork & Seal	.64	.82	2.45	2.59
Bigelow-Sanford Carpet Co.	.09	.50	1.55	1.89
Continental Diamond Fibre Co.	.17	.19	.66	.62
Bristol Myers	.67	.82	2.69	2.83
Rheem Mfg.	.31	.49	1.76	1.36
Columbia Broadcasting System	1.17	.64	2.47	1.98
Parke Davis	.42	.39	1.16	1.15
Tide Water Associated Oil	.68	.79	1.90	1.69
C. I. T. Financial Corp.	.38	.49	1.40	1.54
Standard Oil of California	1.15	.86	3.52	2.21
Westinghouse Electric	.35	.49	1.05	1.29

ing the rapidly changing picture.

Net for the third quarter reported as available for shareholders is governed by the usual wide variation in company policies in arriving at these figures, and the same thing holds true of earnings established for the two previous quarters, so that nine months totals, while broadly significant, must be inspected with corresponding reservations. At the end the last quarter of the year, when full adjustments of reserves, tax credits and what not have been made, the final tally is likely to alter expectancies in a very radical manner, not only for the final period alone but also for the full year's showing.

Apropos of the foregoing, third quarter reports reveal that while many concerns have already drawn heavily upon accumulated reserves for contingencies which might arrive during transition, others have not yet found such a course necessary or have deferred action until the final quarter of the year. But instances where rapidly declining net earnings have been greatly offset by tax credits of one kind or another are significantly frequent. Perhaps more than anything else, taking advantage of the privilege to accelerate amortization of war facilities has proved to be a useful tool in propping up net earnings, or indeed to prevent deficits. As of September 29, 1945, the Government officially declared the ending of war as applied to this tax credit alone, thus permitting business concerns to just get under the wire in utilizing substantial tax credits granted by the Revenue Act of 1942, in adjusting net earnings for the third quarter; for with the official termination of hostilities, the Act wisely provided for complete charging off of certified facilities constructed for military production.

It is estimated that all in all, total "carry-back" potentials available for industry in establishing claims for tax refunds may amount to about $30 billion. But aside from the accelerated amortization discussed, this huge sum can only be utilized to offset losses, or earning declines below the prewar average due to the unpredictable effect of reconversion, and in a large way they involve only adjustments of the excess profits tax. If actual deficits occur, however, they may lead to refunds of normal and surtaxes paid during war years. In no way do they guarantee current profits to industry but they do act as a justifiable averager of profits during years of war production and the transitional period. Net earnings already reported for the nine months' period and those to appear for the full year are likely to reflect below-normal relationships as to volume and profit margins and a greater than usual dependence upon bookkeeping adjustments arising from tax credit to sustain income.

The report of General Motors Corporation for the third quarter is of unusual interest, as reconversion of this industrial giant to civilian production is a long drawn out and very expensive procedure, and in arriving at net the abrupt reversal of operating conditions entailed extraordinary adjustments. During war years, GM has always voluntarily limited its profits on Government business and set up large reserves in each quarter against transitional contingencies. In the September quarter, the company experienced a 41% decline in volume and profits fell below the estimated margin, so that previously set up reserves of $29,927,000 were converted into income subject to tax. This step, affecting as it did net earnings previously reported for the two first quarters of the year, necessitated their retroactive revision and previous estimates of EPT liability similarly had to undergo adjustment on the basis of third quarter realities.

Earlier in the current year, the Government had announced that legitimate expenses incurred to reconvert facilities from wartime production to their exact prewar status would be properly deductible from taxable income, and General Motors has set up on its books a reserve for just this contingency, amounting to about $76 million. During the third quarter reconversion costs of $24,026,800 were charged against income. Since the reserve mentioned above had been established to absorb these costs, a portion of the reserve equivalent in amount to the expenditures for reconversion in the third quarter was credited to income. The expenditures represent allowable deductions for taxes, whereas the credit to income due to the reversal of the reserve does not represent taxable income. Thus, the net effect after excess profit taxes of utilizing the reserve to absorb costs of reconversion was to increase the amount earned on the common stock by the equivalent of 42 cents per share in the third quarter and the first nine months of 1945. As a result of all these adjustments, third (*Please turn to page* 232)

The Meaning of

BRITIAN'S TRADE AGREEMENTS

WITH EUROPE

• **By V. L. Horoth**

THAT the monetary and trade pacts concluded by Great Britain with about ten different nations during the past year, have aroused relatively little interest on the part of American business could have been more or less expected. The succession of political, economic and financial events of the first magnitude has been so rapid that it has been difficult to keep track of them, let alone to recognize the proper significance of each one of them. Offhand, the British pacts appeared to be a series of steps toward the rehabilitation of the world economy and the re-establishment of international exchange of goods. By stabilizing the exchange rates, the agreements reduced the risk to traders from foreign exchange fluctuations. Credits were provided and trade machinery set up. Under the circumstances following the collapse of Germany, any effort at restarting the flow of goods would have appeared worthwhile.

But these emergency-born British pacts have appeared in quite a different light during the past ten weeks while there have been going on Anglo-American negotiations, the main purpose of which was to have the British abandon bilateral and other exclusive trade policies in return for a huge dollar loan. Suppose these negotiations had hit a snag. Suppose we had failed to win British support for the International Fund and the World Bank envisaged at Bretton Woods. The failure to restore economic conditions favorable to multilateral trade would have shown up the bilateral-trade potentialities of the British agreements in a true light. Such a failure would have meant that the race toward the bilaterization of world trade would have been on. The pacts which normally were emergency measures and were to run for only a relatively short time, would probably have been extended beyond the transition period. Gradually, vested interest would have been created and the basis laid for the enlargement and the strengthening of the sterling area.

Among the first to sound a warning of the bilateral nature of the trade and financial agreements was the Federal Reserve Bank of New York which, in three excellent articles published in its Monthly Review discussed their true meaning. In the last one of them (October 1945) the Bank pointed out that "the French franc area, the Belgian franc area, the Dutch guilder area and the Danish krone area are at present connected by bilateral agreements with the sterling area; the agreement with Portugal which is reportedly in course of negotiations will presumably extend to the Portuguese colonies. Thus a large part of the world had been covered by the network of bilateral agreements between Great Britain and Western Europe."

Most important from the viewpoint of bilaterizing the postwar trade are the pacts concluded by Great Britain with six Western European countries, Belgium, France, Sweden, Denmark, the Netherlands, and Norway. The arrangement with Norway was concluded only last week, although it was ready for signature last August. No details have yet been received. With the Anglo-Portuguese pact reported to be in the process of negotiation, of the Western and Northern European countries only Spain and Switzerland remain outside of the structure of bilateral agreements.

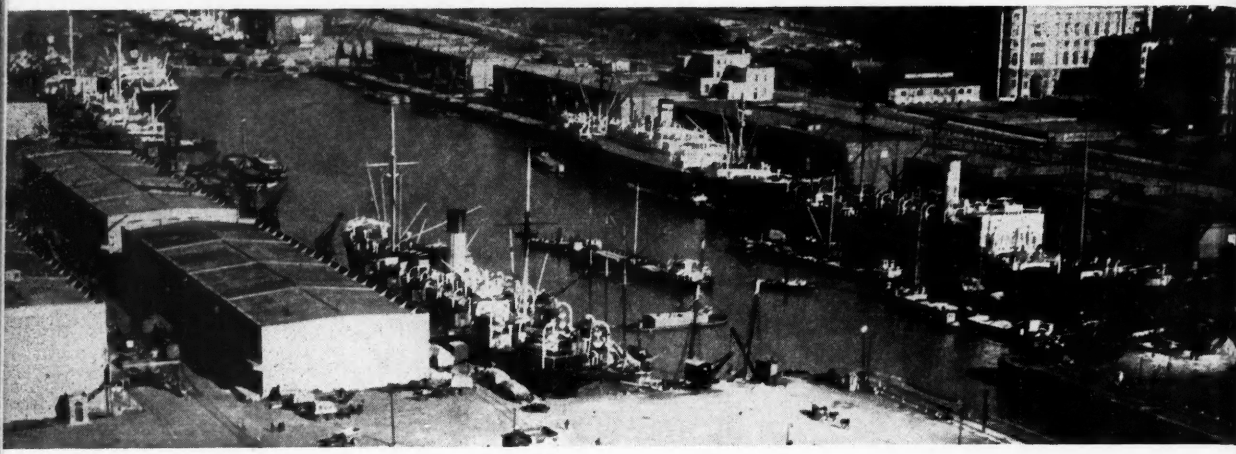
The trade and financial agreements concluded with Turkey, Egypt, and Iraq comprise a distinctive group of pacts. They provide for a more liberal conversion of the pounds earned in the current trade with Great Britain into dollars and other hard currencies, such as Swiss francs or the Swedish Kroner. However, they do not provide for the liquidation of blocked sterling balances accumulated during the war. Similar agreements with other Near and Middle-Eastern countries are likely to follow.

Of the third group of pacts, only one has been negotiated thus far, and very few details are known about it. The trade and financial pact with Czechoslovakia concluded early this month provides for a loan £5,000,000 to that country for the purchase of capital goods in Great

International Assets of the Countries Having Trade and Financial Pacts with Great Britain

	Official Gold and Foreign Exchange Holdings (latest available date)	Reported Blocked Sterling Balances In London (latest available date)	Reported short-term assets in N. Y. (End of May, '45)
Belgium	$712,000,000(a)	£20,000,000	$147,000,000
France	$1,777,000,000(a)	£40,000,000	315,000,000
Sweden	$673,000,000	n.a.	160,000,000
Denmark	$ 44,000,000(a)	n.a.	15,000,000
Netherlands	$500,000,000(a)	£40,000,000(b)	209,000,000
Norway	$ 95,000,000(a)	£65,000,000	194,000,000
Egypt	$ 52,000,000(a)	£350,000,000	10,000,000
Iraq	....	£65,000,000	....
Turkey	$258,000,000	n.a.	51,000,000
Czechoslovakia	$ 62,000,000(a)	n.a.	n.a.

n.a.—Not available. (a)—Gold only.
b)—Nearly £70,000,000 if East and West Indian claims are included.



Pan American

A scene of one of the major harbors of South America showing tremendous shipping activity. Britain as well as all major countries of the world look forward to favorable trade relations with our Southern neighbors.

Britain and industrial raw materials in the sterling area countries. It will undoubtedly serve as a model for similar trade and financial pacts with other countries of Central and Southeastern Europe.

As will be seen from the accompanying table, the British monetary and trade agreement with Belgium was the first one to be concluded. It was modeled after the Belgian-Dutch agreement of October 1943 and in turn provided the guiding lines for the pacts with other Western and Northern European countries. The objective, the re-establishment of more normal trade and financial relationships, was sought (1) by the fixing of exchange rates between the pound and the Belgian franc (this relationship was not to be altered except after mutual consultation); (2) by the establishment of payment machinery between the two countries in keeping with the existing exchange regulations; (3) by mutual co-operation and the exchange of information with the object of keeping down capital movement of funds "not serving direct and useful economic and commercial purposes"; and (4) by providing reciprocal overdraft facilities, so that the trade between the two countries would not be hampered by the shortage of each other's currencies. The Bank of England agreed to furnish sterling up to £5,000,000 for legitimate Belgian requirements, while the Bank of Belgium set aside francs 883,000,000 against which the British nationals could draw. The excess was to be settled by the debtor in gold at the end of three years. However, the agreement could be terminated upon three months notice if desired.

The arrangement excluded from consideration the blocked pound sterling balances held by Belgium or the Belgian Congo. By providing that the sterling or the francs might become available outside of the area of the two currencies as "opportunity opens," the door was left open for the eventual introduction of multilateral payments. Likewise a provision was also inserted that the terms of the agreement should be "reviewed and amended, if the participants should agree to a general international monetary agreement." This and the preceding clause is contained in all the agreements with Western and Northern European countries, and in British opinion they disprove the charge of bilateralism and inconsistency with the international agreements proposed at Bretton Woods.

The agreements made with France, Sweden, Denmark, the Netherlands and presumably also with Norway differ from the Anglo-Belgian pact in details only. The pact with France, for example, has an additional provision directing the French and British Governments to make available to each other any information they may have on French assets in the sterling area or British assets in the franc area. Unlike the other agreements, the pact with France also provides for the settlemen of wartime claims, including the sterling balances held by the French in London. The Danish and the Swedish agreements place no limits upon the balances which each Government is prepared to hold in the currency of the other country. This does not mean, however, that either Sweden or Denmark are prepared to accumulate an unlimited amount of pound sterling. It is believed that some limits have been set but that they are considerably larger than those allowed in the Belgian or the Netherlands agreements. According to the London Economist, the Swedes expect a maximum transitional accumulation of about £40,000,000 during the next year or so.

However, both Sweden and Denmark are apparently accumulating sterling faster than had been anticipated. This is because the Swedish exports, timber, pulp, and prefabricated houses, and such Danish exports as butter, are beginning to flow in considerable quantities to the British market. On the other hand, British exports are slow to expand, with the exception of machinery and chemicals. Evidently British coal deliveries are barely able to keep the Swedish and Danish ships supplied with bunker coal, let alone to provide for industrial and heating purposes.

As has already been *(Please turn to page 229)*

Expansion Trends In The

PUBLISHING INDUSTRY

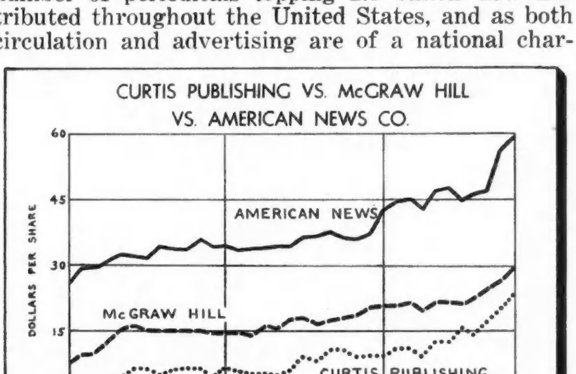
Prospects of Individual Companies Appraised

BY H. S. COFFIN

Gendreau

THE outlook for publishers in postwar may be termed above-average bright, for indications are that readers will increase in number and that a flood of advertising to promote civilian goods and services will make its appearance; thus income from two sources should expand, with corresponding benefit to shareholders in well established units of this interesting industry. As earnings of the publishers have generally trended upward since the early period of the war, the running start thus gained lends added significance to a discussion of the industry fundamentals and the prospects of a few leading concerns.

At the outset, it should be stated that because investor interest in the publishing field broadly centers upon listed stocks and most of these happen to be of magazine producers or of concerns importantly engaged in this special field, this article will be restricted in scope accordingly, except where certain competitive aspects of the industry enter the picture. Production of magazines alone has grown into a very large business, as is evidenced by an annual number of periodicals topping 2.5 billion now distributed throughout the United States, and as both circulation and advertising are of a national character, fundamentals of the business differ widely from those of other segments of the publishing industry such as newspapers, although to an important degree both the "dailies" and radio compete strongly with the magazines for the largest slice of the national advertising pie. Viewed from this angle, significant trends have developed during the race through the years, and to the extent that statistics bearing upon national advertising apart from that of local character are available they warrant close examination, although more frequently quoted figures revealing the distribution of total advertisers' money might be quite misleading. At best, moreover, estimates made by several authoritative sources show considerable variation because of the industry's complexity and different factors used in drawing over-all conclusions.



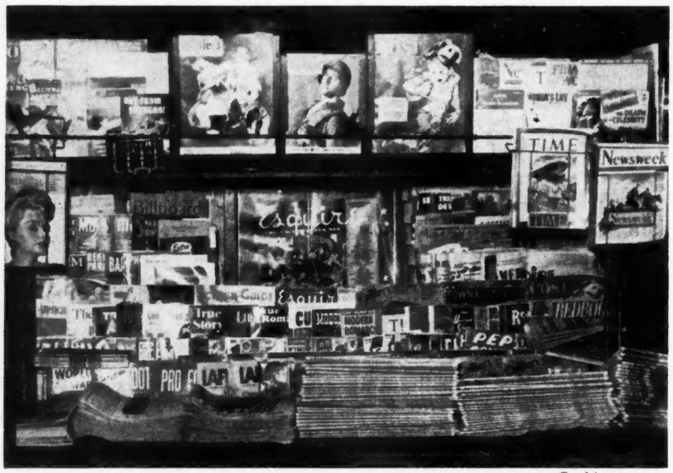
According to a comprehensive survey of the magazine publishing industry compiled for the National Publishers Association last year, upon the suggestion of the Committee for Economic Development, total income during 1943 from both advertising and circulation revenues amounted to about $480 million compared with an average of some $350 million in the prosperous 1928-1930 period. Gross circulation revenues alone during the 1930-43 interval soared from $148.3 million to $278.3 million although the relative gain in advertising volume was a modest $12 million from $190 million to $202 million. Perhaps contrary to the popular conception, therefore, major source of income to magazine publishers appears to be from subscriptions and newsstand sales rather than from advertising although in individual cases wide variations of course come to light. But the picture may be rapidly changing, as 1944 volume of the magazine industry from national advertising is estimated by other well qualified ex-

perts at $285 million and further gains during 1945 have been sharp, the latest index used by Printers Ink Magazine standing at 189.5 for September compared with a 1935-39 average base of 100.

Prosperity of the magazine publishers is linked closely to the level of National Income in different years, thus imparting broad characteristics of volatility. In dull times, of course, revenues from circulation fall off rapidly and advertisers drastically curtail their expenditures, as is well shown by a dip in total volume during the early 1930s to around $250 million, and here it is interesting to note that income from advertising fell faster than was the case from circulation revenues. As a matter of fact, 110 million more copies were sold in 1933 than in the boom days of 1929, but price cutting and bad accounts sliced into relative income to the tune of $6 million. Since those depression days, volume from both sources has grown progressively as a rule, although the gain during the last decade did not quite keep pace with the general level of business activity.

At the outbreak of war, prospects of the magazine producers looked quite black for a while and volume fell measurably during the first half of 1942, when facilities of many leading advertisers were diverted from civilian production to an output of munitions or other military essentials. Offsetting this adverse factor, however, realization that outlays for advertising provided a legitimate basis for deductions in income when it came to figuring excess profit taxes rapidly checked the downward trend in income, and bolstering this improvement was recognition by the Government that to help stabilize postwar conditions for all classes of industry, it would be desirable to keep their products in the minds of consumers even if they could not be purchased at the time. For these reasons, plus increasing reader interest in everything connected with the war, volume during war years was not only well sustained but surprisingly enhanced. Paper shortages and restrictions, to be sure, were a serious handicap, but by using thinner paper, smaller page sizes, narrower margins and by sanctioning fewer returns, gains exceeded all hopes. Now that all restrictions upon paper for magazines have been removed, chances that both volume and earnings will show further improvement are indeed well warranted.

Growth potentials in the magazine field depend upon four basic factors—increase in population or improvement in education—spendable funds—available time for reading—and editorial skill in creating reader interest. Of the nation's continued growth in population there can be little doubt, and during the last generation high school graduates have increased in number fourfold and the number winning college degrees has tripled. The ability and willingness of these potential readers to purchase magazines depends largely upon the family prosperity, as a result of which over 90% of urban families in the United States with incomes of over $5000 now spend an average of $16.92 a year for about 6 different magazines — 85.7% earning between $2500 to $3500 acquire more than 4 magazines at a cost of some $4.50 — and approximately 75% families in the $1500-2000 a year brackets read at least 3 magazines at an outlay of $2.78. These brief figures illustrate the broad coverage of the magazine field, the dependence upon budgetary limitations, as well as highlighting potential shifts in demand as economic conditions force families into higher or lower income groups.

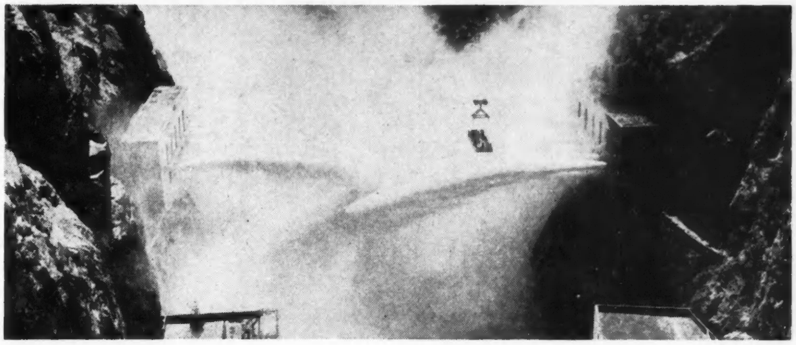


Cushing

The current trend toward shorter working hours, due to increased productivity of machines, along with a tremendous expansion in the use of labor saving devices in the home, point to more and more available reading time for all members of the average family, regardless of whether the home is in the city or in a rural community. Competition, it is true, will slice in leisure (*Please turn to page* 233)

	Gross Revenues ($ mill.) 1941	Gross Revenues ($ mill.) 1944	Net Income ($ mill.) 1941	Net Income ($ mill.) 1944	Working Capital ($ mill.) 1941	Working Capital ($ mill.) 1944	Net Per Share 1941	Net Per Share 1944	1944 EPT Per Share	Div. Per Share 1941	Div. Per Share 1944	Current Price	Price Earnings Ratio
American News	$78.174	$146.286	$1.117	$2.478	$6.926	$10.313	$2.65	$5.88	$16.72	$1.80	$1.80	58¾	10.0
Conde Nast Publications	8.797	13.228	.225	1.046	1.468	2.759	.69	3.12	8.38	.25	1.00	47¼	15.1
Crowell-Collier Publishing	28.500	37.780	1.456	2.973	8.959	14.485	1.86	3.84	9.52	2.00	2.75	70	18.2
Curtis Publishing	40.543	53.674	2.059	3.480	22.100	29.563	def .30	.14	1.32	Nil	Nil	23½	167.4
McCall Corp.	14.226	22.157	.801	1.695	2.564	3.218	1.52	3.24	7.75	1.40	1.70	49½	15.2
McGraw Hill Publishing	15.076	26.011	1.116	1.283	3.712	6.402	1.87	2.22	N.A.	.75	1.00	29½	13.3
Time, Inc.	45.047	68.770	3.749	3.803	13.991	24.717	3.95(a)	3.98	8.60	2.50(a)	2.50	111½	28.0

(a)—Adjusted for 4-for-1 split Dec. 1941.



Cushing

Scene at Boulder Dam. Here is the tremendous power that has been harnessed by the foremost utilities.

LOW-PRICED *Utilities* REAPPRAISED

By Edwin A. Barnes

THE advance in low-priced utility holding company stocks during 1945 has been reminiscent of the 1920's. The issue which has merely doubled in price since January is the exception rather than than the rule — a number of issues are selling at three or four times their 1945 lows — and most of these stocks had already had a big percentage gain over the "give-away" levels of April 1942.

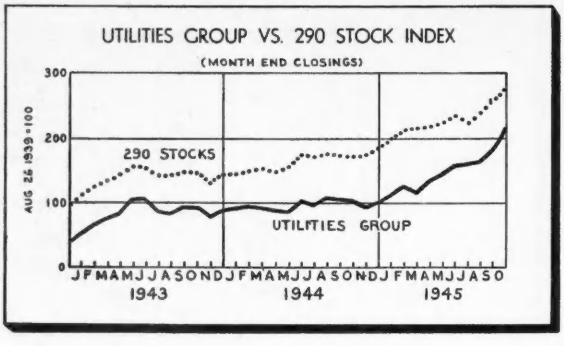
Last year it was generally assumed that the major possibilities for profit were in the senior holding company issues — the second grade bonds and the preferred stocks with big arrears. These securities had their innings last year, but this year they have had to yield the stage to the junior equities. SEC plans for the recapitalization of holding companies (with preferred arrears) have usually cut off the common stocks with some 5-15% of the assets, but some of these plans are now being questioned. Special committees have sprung up almost overnight to contest the rights of common stockholders to the surplus values in holding company portfolios, created by the rising tide of operating company stock prices.

The Securities and Exchange Commission, being in the nature of a combined research laboratory and court, works slowly and meticulously. Lengthy hearings must be held, briefs filed and studied, staff reports laboriously compiled, commission decisions reached, and the final opinion and findings written. Even after the Commission has spoken the final word, approving a plan which may be the last of several proposed or amended plans submitted over a period of years, the program is transferred to a District Court and security holders also have the right to appeal to higher Federal courts, including the Supreme Court.

Meanwhile the stock market doesn't stand still, and in the past year the prices of operating company stocks have been forging ahead rapidly. Obviously if the value of the company's holdings as measured by the changing market yardstick increases 50% before the plan is put into effect, this may provide a sizable windfall for senior securities under the operation of the plan. Should the plan be reopened? If the revised plan should again take several years to perfect and consummate, stocks might be down again and the new plan would be as out of line as the old. In the Standard Gas plan the SEC recognized this factor and inserted a "stabilizing device," based on the prevailing prices for a group of standard utility stocks. But this device was only operative for a two or three months' period. It is unfortunate that some corresponding device can't be embodied in each of the plans, from the date of SEC approval until the time when the new securities are distributed; but probably legal complications prevent this.

There have been five recent instances of holding company recapitalization plans where changes have actually been made, or contests are getting under way to upset existing plans. The Columbia Gas plan, proposed by the management, was combatted by United Corp. and an independent committee of common stockholders, and the management eventually proposed a new plan more in line with current trends and more favorable to the junior stockholders. In the case of Niagara Hudson Power there were two widely differing plans to recapitalize the important sub-holding company, Buffalo, Niagara & Eastern; these were finally scrapped in favor of a third plan which should prove beneficial to Niagara Hudson common.

The three cases being currently tested are Commonwealth & Southern, Standard Gas and Northern States Power. Commonwealth's plan has been approved by the SEC and was to have been submitted



to stockholders for a vote, but the SEC decided to withdraw its agreement to such a vote. A. J. Snyder of Philadelphia, counsel for a new group of common stockholders (representing only about one percent of the huge number of shares), proposes a strenuous fight before the SEC and/or the courts — to prove that the plan is outmoded and that Commonwealth's assets are worth far more than the commission's estimate of a year or so ago. The Commonwealth management has now intervened to favor the equity holders (see later discussion).

Standard Gas and Electric's plan appeared "cut and dried" until recently, having been approved by the SEC and two Federal courts with respect to the distribution to stockholders. But now stockholders (particularly the second preferred, which was cut off with a small participation — the common got nothing) are making a belated move to assert their "rights." The management in a recent letter to stockholders indicated that it was watching the trend of events and might move to amend the plan if this seemed desirable. This helped to explain the big advance in the second preferred stock to its recent high around 18; it would be worth only about 4 under application of the present plan.

Wall Street has been mystified by the sudden doubling in price of Northern States Power A on the Curb — from around 19 to 38 in a few weeks. So far as could be figured from available data, the stock could hardly be worth much more than 25 to 30 under the existing plan, to which the SEC has given its approval recently. The reason behind the advance was disclosed at a recent hearing before the SEC when a preferred stockholders' committee asked for the privilege of circularizing stockholders to support the present plan, since the Class A stockholders would try to upset it in the courts. This move was contested by a New York law firm which claimed that it would represent the A stockholders in future, and might have several ideas for a change in the plan.

While it is not yet clear as to how successful these appeals may be, "hope springs eternal" and many lawyers are willing to work on a contingent fee basis. It is possible that other groups may be formed to contest other plans, except where (as appears to be the case in the Electric Bond and Share group) the management keeps a close guiding hand on the gradual development of new plans. It is possible also that the Supreme Court may have something to say about the whole matter of integration, since after several years' delay due to technicalities, it has finally consented to hand down a decision on the question of constitutionality of the much-debated Section 11 of the Holding Company Act (which contains the principal rules given to the SEC by Congress for dissolving holding companies — the so-called "death sentence" clause).

Do opportunities still exist for further appreciation in lower-priced common stocks of holding companies? The question is difficult to answer because it involves on the one hand the psychology of the market place, and on the other the psychology, policies and methods of the commissions and courts which are trying to administer impartially a difficult program for the break-up of the holding companies. But passage of the new tax bill, relieving the utility companies of a tax burden equivalent to nearly half the amount they pay out in common dividends, is a highly favorable factor which the market may not yet have fully discounted. Of course, the companies in many cases may be called upon to give up some of the benefits of the saving by reducing rates, but such rate cuts usually result in increased usage of electricity by residential customers, especially when new appliances are readily available as may be the case in the future.

Some utility systems have been paying tremendous amounts in excess profits taxes and the benefits of the new law will accrue entirely to common stockholders in most cases, so far as stated earnings and estimated portfolio values are concerned. It may be worthwhile therefore, to review the position of some of these junior equities, despite the large advances they have already enjoyed in most cases.

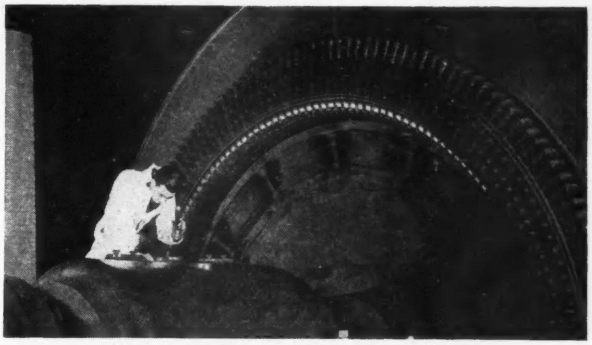
American Power & Light has advanced this year from 2⅜ to 12⅞. The company has not made as rapid progress as Electric Power & Light in straightening out subsidiary plant accounts (to satisfy the FPC), refunding high-coupon or high-dividend issues, etc. However, greater progress appears likely in 1946. The management is beginning to dispose of system properties in order to meet holding company requirements, having sold Nebraska Power and Central Arizona Light & Power. Sale of some of the northwestern subsidiaries to public power districts is being negotiated, although Representative Boren has criticized these "deals" in Congress. In the twelve months ended August 31, $1.37 a share was reported on the common stock. Tax savings for next year may approach $9,000,000, it is estimated, which would be equivalent to nearly $3 more a share on the common stock. Of course such savings may be largely offset by rate cuts or other factors. However, on the basis of these savings and the high prices obtainable for some of its properties if sold to public power districts, the stock looks quite reasonably priced despite the big gain it has registered.

American Water Works — recently at 19¾ compared with this year's low of 8¼ — is currently earning only 71 cents (according to the more conservative method of reporting earnings). After allowing for actual tax savings due to special adjustments however, earnings might be figured at nearly twice that amount. Some further tax savings might be obtainable next year due to cancellation of EPT, and other savings should be available from future refunding operations. However, it may prove neces-

sary to issue additional common stock in connection with the elimination of sub-holding companies, and this will cut down the per share figure. In general, it is estimated that the stock may eventually earn around $2, and hence the stock appears less attractive than some other equities such as those in the Electric Bond & Share group. (American P. & L., Electric P. & L. and National P. & L.)

Columbia Gas & Electric's new plan appears to be generally popular and is expected to meet with SEC approval. The two electric subsidiaries, Dayton Power & Light and Cincinnati Gas & Electric, are going ahead successfully with refunding operations and other changes, preliminary to the offering of rights (to buy their common stocks) to the common stockholders of Columbia Gas. After these properties are disposed of, Columbia will refund its bonds and redeem its three issues of preferred stock. After making allowance for all these changes, estimates of the new earnings on the common stock range from around $1.00 to $1.38 per share. On this basis the common stock seems conservatively priced even at the recent high of 10⅝. Current share earnings plus 1946 tax savings work out at around $1.10 — but this does not make allowance for effects of other changes.

Commonwealth & Southern has been in the market limelight recently. Earlier in the year the stock advanced from 11/16 to the $2 level and held there for some time; and recently it jumped to as high as 4 on tremendous activity. Under the recapitalization plan initiated about two years ago and approved this year by the SEC, the common would hardly be worth much more than $1 a share. But the impression has been gaining ground that the plan would be changed, because it is obviously so out of date in relation to present market yardsticks. As mentioned above, a new group has announced that it will fight strenuously for better terms for common stockholders. The management has now taken notice of these changed conditions and states that it expects to file with the SEC an amendment (the complete text of which is not available at this writing). The gist of the new plan appears to be that common stockholders will have the privilege of "buying out" the preferred stockholders at about $144 if they wish to do so, thus obtaining a bigger share of the



Men are an important factor in utilities.

portfolio value for themselves. To the extent that the common does not avail itself of this privilege, the preferred would receive 85% of the assets as under the present plan.

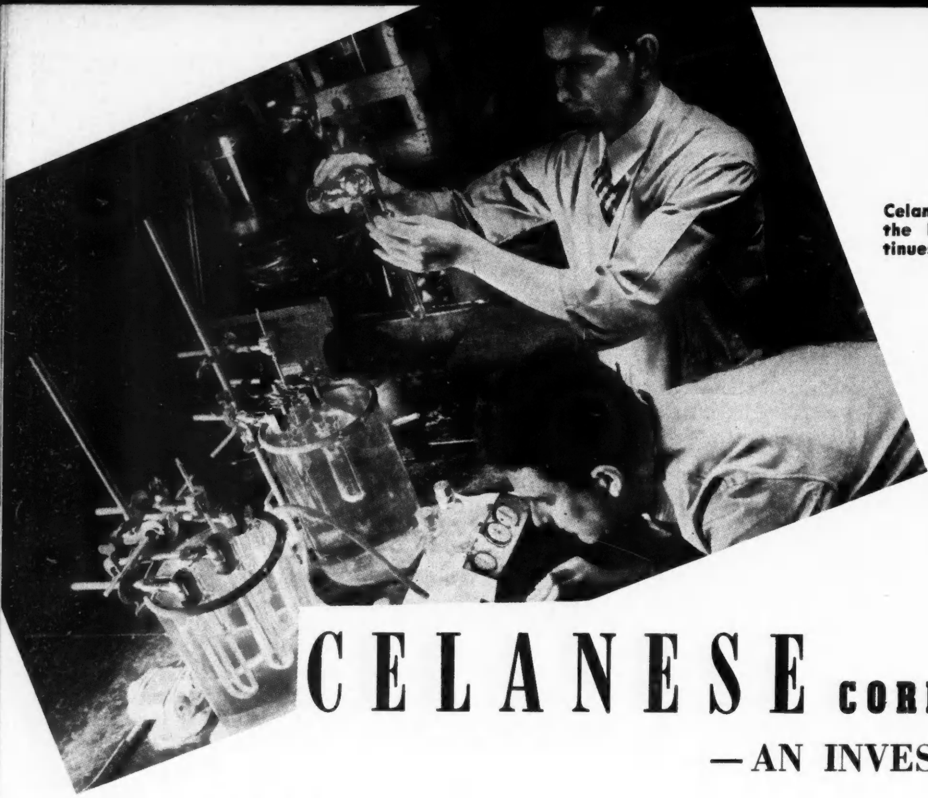
Until further details are available it is difficult to estimate the potential value of the common stock under this plan, but the stock at current high levels seems to have somewhat discounted the effects of the new plan. However, the company's tax savings next year might work out at nearly 40 cents a share on the common stock, and since its residential rates are already far below the national average (due to the policies of the late Wendel Willkie) it is possible that a substantial part of these earnings may be retainable. Added to the current earnings of $.09 a share and given a price-earnings ratio of 15, a price of over 7 would be indicated; but of course this does not take into account the arrears on the preferred stock, loss of war business, etc., which would seem to make a price of 5 about "tops."

Electric Bond & Share is difficult to appraise because the portfolio includes stocks of four sub-holding companies, each of which is going through a phase of refundings, integration plans, property sales, etc. Also, the management has ambitious plans for the service subsidiary "Ebasco," and little or no statistical information is available on this company. Much will depend upon the working out of the recap plan for American & Foreign Power, now before the SEC, as holdings in this company comprise the largest asset. Since most (*Please turn to page* 224)

Statistical Data on Leading Utility Holding Companies

	Gross Revenues in millions of $		Fed'l Inc. & Excess Profits Taxes in millions of $		Earned Per Common Shares		6 Mos. Ended		1944-45	Recent	Price Earnings	Curr.**
	1944	1943	1944	1943	1944	1943	June 1945	June 1944	Price Range	Price	Ratio†	Div.
American Power & Light	$140.4	$134.4	$22.4	$20.4	$1.75	$1.81	$ .59	$ .80	12⅞-2	12⅞	6.8	Nil
American WaterWorks	77.7	74.1	7.8	12.2	1.36	1.10	.39Se9	.38Se9	19⅞-6¼	19¾	14.5	Nil
Columbia Gas & Electric	137.8	140.9	21.8	26.8	.59	.63	.45	.48	10¾-3⅞	10⅝	16.9	$ .20
Commonwealth & South.	206.6	201.4	26.6	33.8	.07	.11	.07Se9	.06Se9	2⅞-⅝	3⅞	41.1	Nil
Electric Bond & Share*	7.4	8.9	1.7	2.5	def.35	def.37	def.50Se9	def.27Se9	19¾-7¾	19½	......	Nil
Electric Power & Light	133.4	132.0	19.3	19.1	1.03	.20	1.12	.26	19⅛-3½	19⅛	17.7	Nil
Long Island Lighting	27.5	25.6	N.A.(b)	N.A.(b)	.14(a)	.02(a)	.10Se9(a)	.05Se9(a)	2-11/16	1⅝	11.6	Nil
Middle West Corp.	87.1	81.1	14.2	12.0	1.07	1.21	.56	.51	19⅞-9⅞	19½	18.2	2.55(c)
National Power & Light	85.1	82.8	11.8	11.9	.79	.80	.29	.30	13½-5⅜	13½	17.1	Nil
Niagara Hudson Power	115.3	117.7	9.1	12.7	.31	.33	.22	.17	8⅜-2¼	8⅜	27.0	Nil
Ogden Corp.*	1.1	1.1	.03	.01	.23	.20	.07	.12	5½-3½	5½	23.9	.25
Philadelphia Co.	61.6	61.4	6.4	4.9	.92	1.10	.79	.71	15-8⅞	15	16.3	.57½
Std. Gas & El. 2d $4 Pfd.	117.0	113.5	16.2	14.5	2.20	3.29	3.12	2.68	18¼-2⅜	18	8.1	Nil
United Corp.*	5.6	4.5	.32	.25	def.17	def.24	def.08Se9	def.07Se9	4½-1	4½	......	Nil

*—Company only. **—Year to date. †—Based on 1944 Net. Se9—For 9 mos. ended September 30.
(a)—Before reservation of net income, after reservations, Net for 1944 was def $.19, 1943 was def $.29.
(b)—Total Taxes were $5.0 mill. in 1944 and $4.7 mill. in 1943. (c)—Includes $2.00 capital distribution paid Dec. 20, 1944.



Celanese Corp. is truly a product of the laboratory, and research continues to play an important role in the company's progress.

CELANESE CORPORATION
—AN INVESTMENT AUDIT

• By Hamilton Owen

THE three most dynamic fields of manufacture today are synthetic textiles, plastics and chemicals. In this trinity of basic industries, Celanese Corp., of America has an important and growing stake—a three-fold opportunity to share in their post-war growth—an ideal background for the investor with an eye to the future.

The name, Celanese, has long been prominently identified with quality fabrics and yarns of synthetic origin, and the company through aggressive promotion and merchandising has attained a position of unchallenged leadership in this field. Possibly even better known is the trade-name, Celluloid, one of the earliest plastic materials and also the property of Celanese Corp. Not so familiar to the general public, however, are such trade-names as Lumarith, Vimlite, Fortisan, Lindol, Celairese, Lanese, and the newest member of the Celanese family, Forticel. All of these names stand for chemical and plastic products of no little importance in their own right, developed in the company's laboratories.

Celanese Corp., is an outstanding example of what can be accomplished in the creation and development of a major corporate entity through the practical application of industrial research. Today, research has attained such recognized stature that is accepted as a reliable yardstick for the measurement of corporate vitality and progress. In Celanese Corp. research has been the veritable arch of its business, attested by the fact that the company holds more than 2,000 patents. Co-ordination and enlargement of research activities is one of the first steps in the company's post-war program of expansion. But this is getting somewhat ahead of our story.

At the very base of Celanese Corp's., roots lie the experiments and research of two brothers, Drs. Camille and Henry Dreyfus. Through the efforts of these two scientists was evolved a successful process for the production of cellulose acetate from plant fibres. It remained to convert cellulose acetate into a synthetic textile fibre, but

Pertinent Statistical Data

	1939	1940	1941	1942	1943	1944
Sales ($ mill.)	$35.478	$44.510	$62.277	$86.146	$94.585	$101.655
Depreciation ($ mill.)	1.876	2.272	2.758	3.841	4.200	4.295
Balance for common ($ mill.)	4.334	3.783	4.449	4.719	3.896	4.532
Operating Margin	22.6%	25.2%	23.9%	24.3%	18.9%	19.7%
Net Profit Margin	17.9%	14.3%	11.4%	8.2%	6.6%	7.1%
% earned on invested capital*	14.5%	14.6%	17.0%	21.7%	18.5%	17.5%
Earned on common, per share	$3.67	$3.38	$3.43	$3.42	$2.83	$2.86
Earned on comm., % of market price	......	......	......	......	......	5.5%
Dividend rate	$ .50(a)	$1.25(b)	$2.00	$2.00	$2.00	$ .50(b)
Dividend yield	......	......	......	......	......	5.2%(c)
Current asset value per share**	None available after allowing for senior securities					
Book value per share	$13.93	$15.06	$17.12	$18.55	$19.24	$18.53
Net current asset value per share**	None available after allowing for senior securities					
Cash asset value per share	17.21	26.70	19.69	14.18	18.76	25.97
Current Ratio	4.6	4.5	3.4	7.3	8.3	9.1

*—Before provision for income taxes. **—After allowing for senior securities.
(a)—Plus 2½% stock. (b)—Plus 3 sh. for each 70 sh. held.
(c)—Taking into effect today's market evaluation of the stock dividends.

the further efforts of the Dreyfus brothers were interrupted by World War I. It was not until late in 1924, following several years of further research, that the first commercial production of Celanese Cellulose Acetate Yarn was started.

Dr. Camille Dreyfus, Chairman of the Board of Celanese Corp. With his late brother, he controlled much of the company's early research work.

Since that time the growth of cellulose acetate yarn has been phenomenal. From 1930 production of all types of cellulose yarns increased more than 330 percent, while in the same period production of cellulose acetate yarns increased 1, 653 per cent, according to information published by the Textile Economics Bureau.

Cellulose acetate yarn differs from viscose and cuprammonium types of rayon both in its manufacture and properties. Briefly, the latter are produced by the addition of a cellulose solution to wood pulp or cotton and then forced through a fine nozzle to produce a continuous hair-like filament, essentially similar to cotton. Cellulose acetate yarn is produced by dissolving solid cellulose acetate in a volatile liquid, which in turn is forced through a tiny nozzle in the presence of heat. The heat evaporates the solvent and leaves a filament of cellulose acetate.

In addition to being thermoplastic, which permits the threads to be fused, cellulose acetate has other properties which give it considerable advantage over other fabrics. It has strong resistance to shrinkage, from either heat or moisture; it is resistant to mildew; and white fabrics do not yellow, as does silk, with age or sun exposure. The thermoplastic quality, for example, is particularly advantageous in making ribbons, for by cutting broad fabrics of Celanese yarn into ribbon strips by the use of heated knives, the edges of the ribbon are sealed against ravelling.

Another important point, is the ready manner in which Celanese staple yarns may be combined effectively with other fabrics — wool, cotton, and rayon — to make clothing, draperies, carpets, and rugs. There are certain dyes which do not register on Celanese yarns. This makes it possible, when the yarn is combined with other fabrics, to obtain cross-dyeing effects at a considerable savings in time and money.

Celanese Corp., operates its own spinning and weaving plants. Although the output is small in relation to that fabricated by the company's customers, these plants serve the purpose of familiarizing Celanese with such problems and limitations as may arise in the process of fabrication. They also enable the company to develop new ideas in the application of their products and assist the trade with advice and practical suggestions.

Other Celanese fibres include a fluffy form known as Celairese, which has natural heat insulating properties and is used for quilts and comforters, and interlining cold weather clothing. Lanese, in combination with other fibres, is woven into light-weight blankets, as well as rugs and carpets. It will not mildew and has no attraction for moths. Celanese also lays claim to the development of the strongest textile yarn in existence, and known by the name Fortisan. This combines light-weight with unusual strength. During the war Fortisan was used in the manufacture of parachutes, but has countless civilian applications.

If one were considering the future of Celanese Corp., solely as a manufacturer of synthetic yarns it would be possible to project a rather convincing picture of the promise of future growth. On the evidence of the company's demonstrated ability to consistently enlarge its share of the market, further expansion in both the scope and prestige of Celanese products would be a pretty safe assumption. Add to this, however, the strong potentials embodied in the company's expanding interest in plastics and chemicals and the dynamic elements, previously referred to, are brought into clearer perspective.

Celanese yarns have many diverse applications, ranging all the way from neckties to floor coverings.

It is a comparatively simple step from the production of cellulose acetate for synthetic textiles to the production of a large series of plastics or synthetic materials. This is accomplished by merely varying the formula.

Celanese Corp., long identified with synthetic textiles is, nevertheless,

no neophyte in the field of plastics. In 1927, the company acquired control of Celluloid Corp., established in 1872, and the pioneer in the plastics industry. Merger of the two companies was consummated in 1941, followed by the organization of the Celanese Plastics Corp. in 1944.

The plastic Celluloid is formed by the conversion of cellulose into cellulose nitrate, and is noteworthy for its toughness and intricate color effects. It is still used for many applications, but cellulose acetate plastics, grouped under the trade name, Lumarith, have been found to be much more versatile. These plastics may be molded and formed under heat and pressure. Because no chemical change occurs, they can be reheated and remolded, permitting the use of scrap and avoiding waste. The advantage to the manufacturer of a plastic product is obvious. Lumarith lends itself to a wide range of manufacturing and fabricating methods, has unlimited colorability, and is produced in all forms including sheets, rods, films, foils and tubes.

Another Celanese plastic, Vimlite, is made by putting a special coating of cellulose acetate on wire mesh to form a glazing material, suitable for use on cold frames, poultry houses and storm doors. It is non-shatterable and transmits the violet rays of the sun.

The newest addition to the already extensive list of Celanese plastics is Forticel, the trade name for cellulose propionate, made from cellulose and propionic acid. In the strict sense of the word this is not a new plastic, but this marks its first commercial production in the United States. Lack of raw materials has prevented earlier introduction. Celanese, however, overcame this handicap by the production of propionic acid from natural gas at a new plant in Texas, and is the only commercial producer of this product in the country.

In addition to being much tougher than cellulose acetate plastics, Forticel can also be molded in a press in much less time than cellulose acetate. The latter factor is being counted on to offset the somewhat higher price for Forticel, which is expected to sell in bulk for about 45 cents a pound against 37 cents a pound for cellulose acetate. It is anticipated that it will be in wide demand for use in making household equipment, telephones, radio housings and automobile steering wheels. Right now production of Forticel is limited, but large scale output is expected in about a year.

The growth of the plastics industry in the United States has literally been by leaps and bounds from 60 million pounds in 1932 to 900 million pounds last year. Industry enthusiasts believe that the growth of the industry over the next twelve years will be even more marked. But even if due allowance is made for this natural optimism, the industry's future growth under the impetus of continuing research is assured.

Growth of Celanese Corp. Assets

	Dec. 31 1941	Dec. 31 1944	Change
ASSETS ($ mill.)			
Cash	$26.587	$26.094	—.493
U. S. Government securities	.515	14.914	+14.399
Receivables, net	6.903	8.455	+1.552
Inventories, net	8.408	8.550	+.142
Other current assets	.114	—	—.114
TOTAL CURRENT ASSETS	42.527	58.013	+15.486
Plant and equipment	73.889	88.894	+15.005
Less depreciation	19.596	30.077	+10.481
Net property	54.293	58.817	+4.524
Other assets	4.221	9.850	+5.629
TOTAL ASSETS	101.041	126.680	+25.639
LIABILITIES ($ mill.)			
Notes payable	.200		—.200
Accounts payable and accruals	3.965	6.380	+2.415
Reserve for taxes	8.388	(a)	—8.388
Other current liabilities			
TOTAL CURRENT LIABILITIES	12.553	6.380	—6.173
Deferred liabilities	.647	3.448	+2.801
Short term debt	3.000		—3.000
Long term debt	24.700	34.289	+9.589
Reserves	1.500	3.480	+1.980
Capital	36.447	49.822	+13.375
Surplus	22.194	29.261	+7.067
TOTAL LIABILITIES	101.041	126.680	+25.639
WORKING CAPITAL	29.974	51.633	+21.659
Current Ratio	3.4	9.1	+5.7

(a)—Offset by $12.8 mill. U. S. tax notes.

The increasing importance of Celanese Corp., in the production of synthetic chemicals is a natural outgrowth of its long experience in chemical research and the use of chemicals in the manufacture of synthetic textiles and plastics.

Seeking to provide a substitute for camphor, as well as improve upon its qualities as a plasticizer, Celanese has developed an ever-growing group of organic phosphates under the trade name Lindol. The company was the pioneer in this field and is now the leading producer of organic phosphates. In addition to its use in plastics, Lindol is employed in the making of paints, lacquers, raincoats, electrical cable coverings, artificial leather and packaging materials. It has excellent lubricating qualities and is non-combustible.

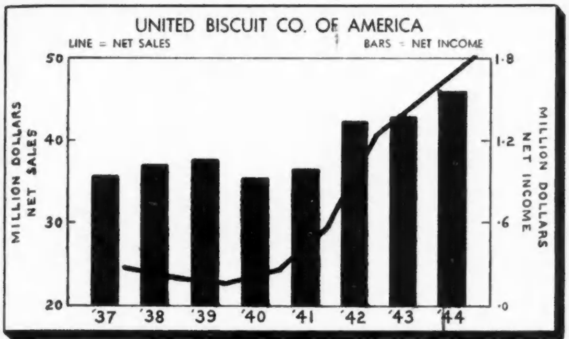
The source of Lindol is coal tar or petroleum. Actually, the research organization of Celanese has long been engaged in exploring the possibilities of petroleum and natural gas as source of valuable materials from which synthetic chemicals might be manufactured. Last July, the initial unit in the company's large new chemical plant in Bishop, Texas, started production. The site of this plant was selected because of close proximity to an abundance of petroleum and natural gas. Utilizing a new process, the company will produce such important chemicals as acetic acid, acetic anhydride, acetone, methanol and formaldehyde. Some of these chemicals are extensively used by the company itself, but there will be a sizable surplus for sale to other commercial users. Another unit of the Texas plant will engage in the production of butadiene, the main ingredient used in making Buna-S synthetic rubber.

From the preceding synopsis of the three major industrial fields in which Celanese Corp., is prominently identified several important factors stand out, even aside from the obviously strong "growth" potential. Each of these industries complements the other; they offered a natural invitation to research and development by the Celanese organization; and in each of them Celanese finds itself quite at home, so to speak.

Although Celanese products were extensively employed in the war effort, the cessation of hostilities left the company with *(Please turn to page 235)*

Six Selected Profit Opportunities

EDITOR'S NOTE: Apart from their general soundness, these stocks have been selected from companies in a position to benefit materially from tax relief and—in these times of rising wage costs—from an exceptionally low wage ratio. Both these factors should find market expression in the future.



BUSINESS: United Biscuit is nation's third largest cracker baker. Products also include cookies and cakes sold in packages and bulk. Distribution through normal retail channels is on a national scale, although the major share of sales is made in the territory which lies roughly between Philadelphia and Salt Lake City. Company's earnings, over an extended period, have been marked by greater than average stability and changes from year to year have been influenced largely by sales volume. Profit margins, except on the higher priced items, are small. Fifteen plants are strategically located throughout the country with relation to principal sales areas. Business volume has expanded some $20 million in the past three years and sales in 1944 were upwards of $50 million. Further gains have been registered in 1945.

OUTLOOK: Net for the first nine months of 1945 was equal to $1.90 a share for the 468,283 shares of common stock, comparing with $1.72 in the same months a year ago. Final quarter is the largest, normally, both in point of sales and profits. Per share earnings for the full year will be moderately higher than the $3.10 in 1944. Including a 25-cent extra, common dividends this year have amounted to $1.25. Earnings prospects favored by sustained high level of national income over the coming months.

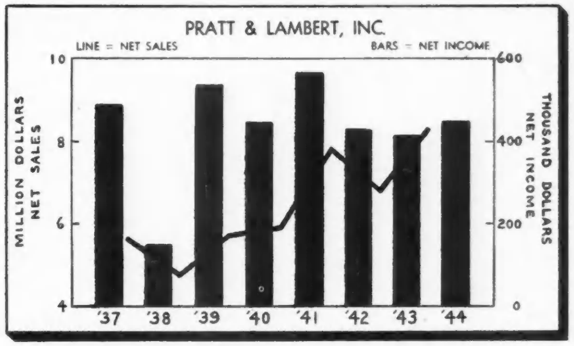
COMMENT: Company will probably be subject to at least a moderately higher level of operating costs but the item of wages does not bulk heavily in relation to over-all expenses. Elimination of excess profits taxes may be reflected in sharp earnings improvement next year. Total taxes paid by company in 1944 were equal to about $9.50 a share, or more than three times net earnings on the common. Finances are sound. Ahead of the common are 25,000 shares of $5 preferred stock, and funded debt of $4,970,000 3½% debentures due 1955. Some increase in the present $1 regular dividend, or more generous extras, appears a logical expectation.

MARKET ACTION: Recent price, above 35, is the highest recorded since 1929, but price-earnings ratio is still relatively low.

COMPARATIVE BALANCE SHEET DATA
($ millions)

	Dec. 31 1941	Dec. 31 1944	Change
ASSETS			
Cash	1.443	4.382	+2.939
Marketable securities	.025	—	—.025
Receivables, net	1.382	1.702	+.321
Inventories, net	3.203	4.240	+1.037
Other current assets	—	.314	+.314
TOTAL CURRENT ASSETS	6.052	10.638	+4.586
Plant and equipment	15.642	15.910	+.268
Less depreciation	6.656	7.356	+.700
Net property	8.986	8.554	—.432
Other assets	9.481	10.443	+.962
TOTAL ASSETS	24.519	29.635	+5.116
LIABILITIES			
Notes payable	.250	—	—.250
Accounts payable and accruals	.787	1.295	+.508
Reserve for taxes	.649	4.089	+3.440
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	1.686	5.384	+3.698
Deferred liabilities	—	—	—
Short term debt	—	—	—
Long term debt	6.790	5.320	—1.470
Reserves	.059	.400	+.341
Capital	9.796	9.796	—
Surplus	6.188	8.735	+2.547
TOTAL LIABILITIES	24.519	29.635	+5.116
WORKING CAPITAL	4.366	5.254	+.888
Current Ratio	3.6	1.9	—1.7

Thumbnail Stock Appraisal



BUSINESS: Pratt & Lambert is an important manufacturer of paints, varnishes, enamels, lacquers, etc. Company's products have a fairly sizable market among industrial users, but major profit determinant is volume of residential construction. Prospects are that the latter will be sustained in large volume for several years. Active research has developed a number of new products, complementing company's older lines, and which should lend themselves to profitable post-war exploitation.

OUTLOOK: Long deferred home maintenance work and revival of large scale residential and industrial construction should result in expanding sales and earnings for Pratt & Lambert. Company's products are well known and extensively advertised. Somewhat higher costs should be absorbed by increased business volume without difficulty. Current interim reports are not available but it is a reasonable assumption that earnings this year will compare favorably with 1944 results. Net in that year was equal to $2.28 a share on the 196,073 shares of stock which comprise the entire capitalization. Except in the depression year of 1932, profits have been shown in every year of the past twelve.

COMMENT: Finances are excellent. Cash alone, at the end of 1944, was more than three times all current liabilities, while net current assets were equal to better than $24 a share. Excess profits taxes in 1944 were equal to about $3.05 a share and relief from this liability in 1946 is an additional favorable factor in the company's earnings outlook. Well supplied with cash, the company is in a position to treat stockholders liberally in the matter of dividends. Present rate $1.80 annually, may be increased to at least $2 next year.

MARKET ACTION: Comparatively small size of issue is reflected in an inactive market. Present price of 45 is the highest since 1929, and compares with the previous high of 41, in 1937. Low yield and high market price-earnings ratio has the support, however, of strongly favorable earnings outlook.

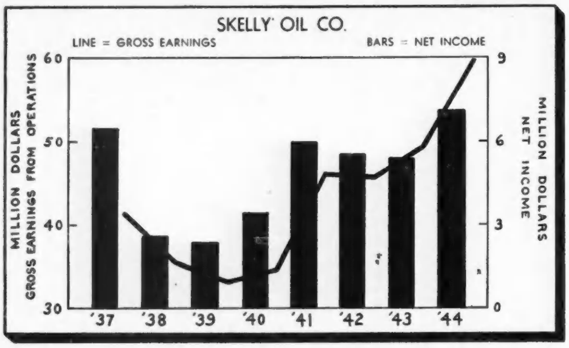
COMPARATIVE BALANCE SHEET DATA
($ millions)

	Dec. 31 1941	Dec. 31 1944	Change
ASSETS			
Cash	1.007	1.727	+.720
Marketable securities	.106	.992	+.886
Receivables, net	1.313	.650	—.663
Inventories, net	2.436	1.927	—.509
Other current assets	—	—	—
TOTAL CURRENT ASSETS	4.862	5.296	+.434
Plant and equipment	3.323	3.241	—.082
Less depreciation	1.490	1.647	+.157
Net property	1.833	1.594	—.239
Other assets	.416	.378	—.038
TOTAL ASSETS	7.111	7.268	+.157
LIABILITIES			
Notes payable	.003	—	—.003
Accounts payable and accruals	.382	.230	—.152
Reserve for taxes	.305	.304(a)	—.001
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	.690	.534	—.156
Deferred liabilities	—	—	—
Minority interest	.136	.081	—.065
Long term debt	—	—	—
Reserves	—	.075	+.075
Capital	3.266	3.329	+.063
Surplus	3.019	3.249	+.230
TOTAL LIABILITIES	7.111	7.268	+.157
WORKING CAPITAL	4.172	4.762	+.590
Current Ratio	7.0	9.9	+2.9

(a)—After deducting $816,200 U. S. Treasury Tax Notes.

Thumbnail Stock Appraisal

Six Selected Profit Opportunities



BUSINESS: Skelly Oil, although one of the smaller of the country's oil units, engages in all the major phases of the oil industry, production through distribution. Sales area embraces the mid-continent and southwestern states. Company's production is more than sufficient to meet all of its refinery requirements, and a 14 per cent interest in Great Lakes Pipe Line enables Skelly to distribute its products economically in the Mississippi valley territory. Company also controls Spartan Aircraft, engaged in the manufacture of aircraft and operating flying schools, while a recently organized subsidiary, Spartan Airlines, Inc., has applied for permission to operate a network of feeder transport lines. Operations are, of course, subject to the intensive competition characteristic of the oil industry, but Skelly in the past has more than held its own.

OUTLOOK: Barring the unforseeable contingency of an unfavorable price structure, company's 1946 outlook is for well sustained earnings, comparing favorably with recent years' results. Net in the first nine months of this year was equal to $5.46 a share and was moderately higher than for the corresponding period of 1944. Full year's earnings will probably be in the neighborhood of $7.50 a share which would compare with $7.36 a share last year. Dividends this year amounted to $2 a share, which was the most generous treatment accorded stockholders since 1930. Company's comfortable cash position would seem to presage continued liberal payments. Although the petroleum industry has recently been plagued by labor disturbances, oil refining has one of the lowest wage-sales ratios of the nation's major industries. Income and excess profits taxes paid by the company in the first nine months of this year were equal to more than $4.50 a share, and excess profits taxes alone for all of 1944 were slightly more than $4 a share.

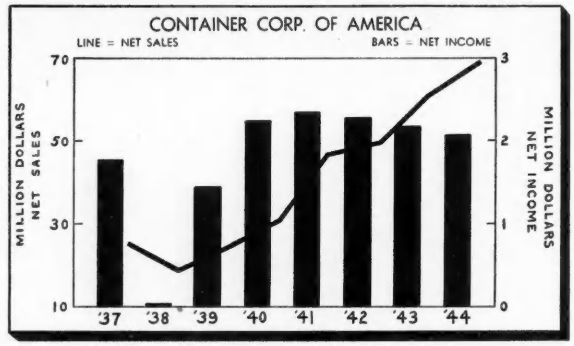
COMMENT: The 981,349 shares of capital stock are preceded by $10 million 2¾% debentures due 1965, making for a fairly substantial leverage factor. Currently selling to yield about 3.7 per cent, the shares are not unattractive from an income standpoint, on the basis of present day standards, while the price-earnings ratio appears unwarrantedly low in relation to the company's promising outlook over the coming months.

MARKET ACTION: Shares are somewhat volatile marketwise. Recent levels around 54 compare with the 1937 high of 60⅝.

COMPARATIVE BALANCE SHEET DATA
($ millions)

	Dec. 31 1941	April 30 1945	Change
ASSETS			
Cash	2.050	5.277	+3.227
U. S. securities	——	3.789	+3.789
Receivables, net	4.914	7.725	+2.811
Inventories, net	8.377	11.949	+3.572
Marketable securities	1.002	——	—1.002
TOTAL CURRENT ASSETS	16.343	28.740	+12.397
Plant and equipment	119.241	144.361	+25.120
Less depreciation	68.178	83.433	+15.255
Net property	51.063	60.928	+9.865
Other assets	2.999	1.634	—1.365
TOTAL ASSETS	70.405	91.302	+20.897
LIABILITIES			
Notes payable	1.229	1.400	+.171
Accounts payable and accruals	3.526	8.081	+4.555
Reserve for taxes	3.143	8.154	+5.011
Other current liabilities	——	——	——
TOTAL CURRENT LIABILITIES	7.898	17.635	+9.737
Deferred liabilities	.043	.060	+.017
Minority interest	.019	.011	—.008
Long term debt	14.800	10.000	—4.800
Reserves	2.166	2.033	—.133
Capital	14.720	14.720	——
Surplus	30.759	46.843	+16.084
TOTAL LIABILITIES	70.405	91.302	+20.897
WORKING CAPITAL	8.445	11.105	+2.660
Current Ratio	2.0	1.6	—.4

Thumbnail Stock Appraisal



BUSINESS: Container Corp. of America is the leader in its field—paperboard products. Company manufactures and sells linerboard, boxboard, corrugated shipping containers, folding cartons and paperboard cans. A kraft pulp mill is operated in Florida; in addition seven other mills in various sections of the country engage in converting waste paper and strawboard. About 75 per cent of the company's output is utilized in its own factories and manufactured into paper boxes, containers, etc. Balance is sold to other converters. Large volume and a stable price structure are the principal factors making for good earning power.

OUTLOOK: Post-war demand for paper shipping containers and cartons seems certain to surpass pre-war levels. During the war, paper products made marked competitive headway against other types of materials. These competitive gains should be largely retained. Manpower shortages may have the effect of creating a tight supply situation with respect to raw materials but gradual alleviation of this situation should materialize through 1946. Elimination of excess profits taxes will afford Container Corp. substantial relief. Total income and profits taxes paid by the company in the first nine months of this year were equal to over $6.85 a share. The wage factor in the industry is low,being less than 20 percent of sales volume. Despite a gain of some $4 million in sales, profits in the first three quarters of 1945 have been somewhat under the levels of a year ago. Net available for the 781,253 shares of stock was equal to $1.79, against $2.11 in the same period last year. Higher taxes and operating costs were responsible for the decline. Results in the final quarter will probably be somewhat better. Dividends of $1.50 will be maintained.

COMMENT: Company's post-war plans and business volume may require resort to temporary borrowing or new financing. At present time there are no bank loans or funded debt. Well entrenched industrial position of company and promising outlook for 1946, suggests the shares as one of the more attractive mediums in the paper group.

MARKET ACTION: At recent levels around 38, shares are at their 1945 high, which compares with the previous high of 37⅜ in 1937.

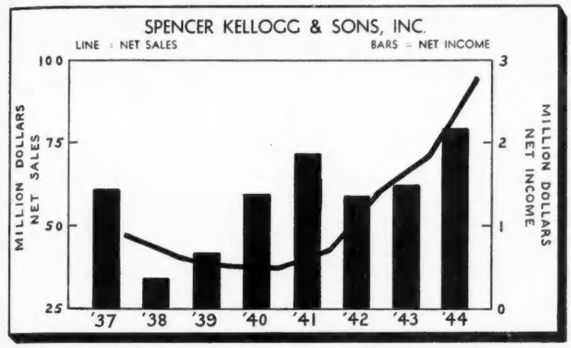
COMPARATIVE BALANCE SHEET DATA
($ millions)

	Dec. 31 1941	June 30 1945	Change
ASSETS			
Cash	1.250	3.124	+1.874
U. S. securities	——	.612	+.612
Receivables, net	3.075	3.403	+.328
Inventories, net	4.341	4.501	+.160
Other current assets	.033	——	—.033
TOTAL CURRENT ASSETS	8.699	11.640	+2.941
Plant and equipment	29.463	31.874	+2.411
Less depreciation	11.952	16.632	+4.680
Net property	17.511	15.242	—2.269
Other assets	.594	3.528	+2.934
TOTAL ASSETS	26.804	30.410	+3.606
LIABILITIES			
Notes payable	——	——	——
Accounts payable and accruals	1.983	4.564	+2.581
Reserve for taxes	.817(a)	——(a)	—.817
Other current liabilities	——	——	——
TOTAL CURRENT LIABILITIES	2.800	4.564	+1.764
Deferred liabilities	——	——	——
Short term debt	2.900	——	—2.900
Long term debt	——	——	——
Reserves	——	1.300	+1.300
Capital	15.625	15.625	——
Surplus	5.479	8.921	+3.442
TOTAL LIABILITIES	26.804	30.410	+3.606
WORKING CAPITAL	5.899	7.076	+1.177
Current Ratio	3.1	2.5	+.6

(a)—After deducting U. S. Treasury Tax notes of $4.2 mill. in 1941 and $9.8 mill. in 1945.

Thumbnail Stock Appraisal

Six Selected Profit Opportunities



BUSINESS: Primarily engaged in the production of linseed oil, Spencer Kellogg & Sons, Inc., has expanded its business in recent years to include coconut, tung, soybean and castor oils. Principal outlets are afforded by such industries as paint, linoleum, printing ink, soap, chemical and food. During the war sales of linseed and soybean oils contributed some fifty per cent of sales. In a peace-time setting, however, sales distribution will doubtless be more evenly divided, with takings by principal consumers likely to be enlarged proportionate to their respective prospects. Demand by paint and linoleum manufacturers, for example, should reflect greatly increased application of these products for civilian uses. Foreign sources of supply in China and Philippines may be again available later in 1946. Nine plants are operated in United States; one in Canada. Company has been in business a half century and dividends have been paid continuously since 1913.

OUTLOOK: Sales volume during war years was expanded substantially over nomal levels. Peacetime demand for all products, however, should be well sustained and any decline in sales should be largely offset by greatly reduced taxes and contingency reserves. Excess profits taxes alone amounted to nearly $11 a share in the 1944 fiscal year. Labor costs do not bulk heavily in relation to sales. Research plays an active part in the company's activities, resulting in the development of two soybean products to replace linseed oil in paints and varnishes, and two soybean substitutes for castor oil. Other new products have been developed to solve technical problems in the paint and protective coatings industries.

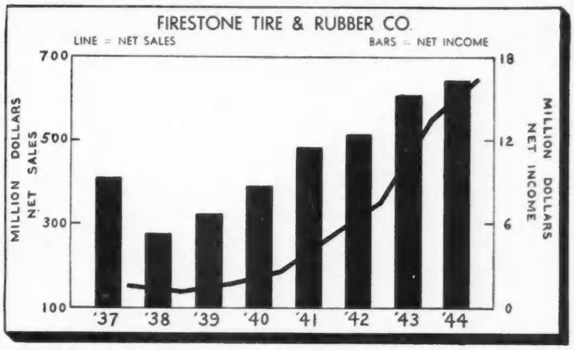
COMMENT: Report for the fiscal year ended August 31, last, will not be available for several weeks, but it is expected that earnings will be around $3 a share, which would compare with $3.54 a share in the 1944 fiscal period. Net, before taxes, was off about 20 per cent in the first half year to $1.36 a share, against $1.69 a share in 1944. Finances, at last report, were sound. There is no debt or preferred stock. Dividends are paid at rate of 45 cents quarterly. Shares are of investment calibre and yield a fair return.

MARKET ACTION: Substantial portion of outstanding stock is closely held. Present price of 44½ is well above the high of 36 for 1937, and the highest since 1929.

COMPARATIVE BALANCE SHEET DATA
($ millions)

ASSETS	Aug. 30 1941	Sept. 2 1944	Change
Cash	1.508	2.112	+.604
U. S. securities	——	.137	+.137
Receivables, net	2.744	4.517	+1.773
Inventories, net	14.507	16.975	+2.468
Other current assets	——	——	——
TOTAL CURRENT ASSETS	18.759	23.741	+4.982
Plant and equipment	18.014	19.585	+1.571
Less depreciation	8.075	8.917	+.842
Net property	9.939	10.668	+.729
Other assets	1.431	1.139	—.292
TOTAL ASSETS	30.129	35.548	+5.419
LIABILITIES			
Notes payable	5.300	4.920	—.380
Accounts payable and accruals	3.152	3.499	+.347
Reserve for taxes	.944	2.777	+1.833
Other current liabilities	——	——	——
TOTAL CURRENT LIABILITIES	9.396	11.196	+1.800
Deferred liabilities	.058	——	—.058
Short term debt	——	——	——
Long term debt	——	.820	+.820
Reserves	.675	1.575	+.900
Capital	12.230	14.700	+2.470
Surplus	7.770	7.257	—.513
TOTAL LIABILITIES	30.129	35.548	+5.419
WORKING CAPITAL	9.363	12.545	+3.182
Current Ratio	2.0	2.1	+.1

Thumbnail Stock Appraisal



BUSINESS: Firestone is one of the four major manufacturers of automobile tires and tubes. Sales of these products normally account for about 55 per cent of the total volume of business and are about equally divided between original equipment, principally for Ford cars, and replacement business. Company's line of mechanical and latex products, although extensive, contributes about 10 per cent of total sales. Post war plans include the extensive marketing of aircraft supplies and accessories and company has developed a new plastic—Velon. Firestone in recent years has developed increasing stature as a merchandiser and operates some 700 retail units offering, in addition to automobile supplies, a wide variety of merchandise. Further diversification of scape is planned for the future. Company has been operating three synthetic rubber plants for Government, and large rubber plantations are owned in Liberia.

OUTLOOK: The long pent up demand for rubber tires and tubes is well known, and Firestone can be expected to obtain a good competitive share of this business. Output of these products will, for several years at least, be well in excess of the pre-war average. With the development of synthetic rubber and the increasing use of rayon, replacing cotton, a period of greater price stability in raw materials is foreshadowed for the industry. In the past fluctuating prices have resulted in heavy inventory losses. Raw materials are the heaviest cost factor, the item of labor amounting to less than 20 per cent of the total. In 1944, taxes and reserves of Firestone amounted to $13.50 a share.

COMMENT: With profits in the first six months equal to $3.08 a share for Firestone common, against $2.88 in the comparable period of 1944, net for the fiscal period ended October 31, last, will probably be about $7.50 a share. A year ago net working capital was equal to better than $50 per share of common. Ahead of the 1,945,000 shares of common is funded debt of $41,375,000 debenture 3½'s due 1948 and $42,600,000 4½% preferred stock, providing a potent leverage factor. The price earnings-ratio of about 10 to 1 is unusually reasonable at this time, and the yield on the $2.50 dividend may be enhanced by an extra dividend.

MARKET ACTION: Recent 1945 high of 70⅝ is an historical level, comparing with the 1937 high of 41⅜, and 58⅜ in 1929.

COMPARATIVE BALANCE SHEET DATA
($ millions)

ASSETS	Oct. 31 1941	Oct. 31 1944	Change
Cash	13.400	25.613	+12.213
Marketable securities	——	——	——
Receivables, net	44.821	68.427	+23.606
Inventories, net	74.264	86.982	+12.718
Other current assets	2.352	——	—2.352
TOTAL CURRENT ASSETS	134.837	181.022	+46.185
Plant and equipment	122.886	142.723	+19.837
Less depreciation	42.946	57.380	+14.434
Net property	79.940	85.343	+5.403
Other assets	11.010	27.694	+16.684
TOTAL ASSETS	225.787	294.059	+68.272
LIABILITIES			
Notes payable	10.654	23.122	+12.468
Accounts payable and accruals	14.020	39.442	+25.422
Reserve for taxes	20.846	16.170(a)	—4.676
Other current liabilities	——	——	——
TOTAL CURRENT LIABILITIES	45.520	78.734	+33.214
Advances under Government contract	1.921	13.919	+11.998
Minority interest	.552	.339	—.213
Long term debt	50.000	44.000	—6.000
Reserves	10.000	20.420	+10.420
Capital	65.964	92.472	+26.508
Surplus	51.830	44.175	—7.655
TOTAL LIABILITIES	225.787	294.059	+68.272
WORKING CAPITAL	89.317	102.288	+12.971
Current Ratio	2.9	2.3	+.4

(a)—After deducting $30.9 mill. U. S. Treasury Tax Notes.

Thumbnail Stock Appraisal

Building Your Future Incom

Editorial:

A RESERVE FOR THE FUTURE

There is probably no individual more conscious of his obligations, or strives harder to meet them, than the head of the typical American family.

He purchases a home where his children may have their roots and grow up in an environment which will mold their character and lives. He plans their education and lays aside the money to pay for it. He invests his surplus funds carefully toward the day when he can relax and enjoy the peace of mind and satisfaction that comes with a job well done. He has created an insurance estate and is secure in the knowledge that his family will be well cared for in the event of his death.

But there is one thing which an otherwise astute provider is prone to overlook. That is a reserve—a reserve of cash in the savings bank or Government bonds—to be used only when some unforeseeable contingency threatens to undermine the structure of his security.

Life being what it is, a financial emergency almost invariably occurs at a time when we are least prepared for it. Business is poor; security and real estate values are depressed; and money on loan is not readily obtainable. An emergency rarely arises when things are going smoothly and according to plan—because in that happy state of affairs it is not an emergency.

A reserve is just what the name implies. It is an extra element of financial strength which can be called upon when the going is tough and your wind is short.

The family head, looking watchfully toward the future, will find that his perspective will come into much sharper focus when viewed with the assurance and security of a solid cash reserve.

Lay the foundation now for your future security.

INSURANCE

As An Investment

—FOR THE BUSINESS WOMAN

• By Edwin A. Muller

THE advent of the war has brought more women into the business world, professions and industry than any other factor of recent years.

My casual survey indicates that a great many of these women will continue in business as so-called "career" women. Money has literally been rolling into their coffers from so many new and varied activities.

Also, more than ever do women tend to control the purse strings of this country. On life insurance policies alone, their names appear more frequently as beneficiaries in receiving substantial sums of money. Similarly, they are among the largest receivers of interest and dividends from investments. In the more complex economic conditions of today, it is essential for every woman to learn how life insurance can become a most important factor in the preservation of capital and the production of income.

Let us consider a few rather interesting cases in my personal experience within the recent past.

At the sudden death of her husband, a woman, 37 years of age, was forced to go into business. Her only asset was a $5,000 life insurance policy of which she fortunately was the beneficiary. Savings were negligible. With an excellent personality and good background, she eventually established a successful restaurant business. The resultant unexpected prosperity forced the woman to seek new sources of investment. As is often the case, women in business and even some at the helm of outstanding businesses are overlooked in the financial scheme of events—even as life insurance prospects. Never once was the woman approached to buy any life insurance over a period of five years.

The usual disappointments which befall all women inexperienced in finances followed, chiefly among which were loss of income and capital. It was at this time I was able to convince her that life insurance was the indispensable element needed for her future financial program.

A complete Life Insurance Plan, not just life insurance was to be established. I further convinced her that she should systematically withdraw a substantial percentage of her profits for investment in a Life Insurance Plan. If she did not do this, she would simply reinvest the funds in the business in various ways, and lose the *accumulative benefits* of establishing the Plan whose purpose was to provide a guaranteed retirement income at age 60 of $300 monthly.

I indicated that she would be required to save $120,000 to age 60, invested conservatively at present yields of 3% to produce $3,600 annually or $300 monthly. In comparison, under the Life Insurance Plan, one-half as much in savings is required to produce the sum of $3,600 a year or $300 monthly.

Charles Phelps Cushing Photo

Let us consider case number two, that of a New York woman physician of 32 who built up a substantial practice. During the war, she has taken over the practice of two of her associates who entered the Service. Since she is not married, she just lives for her profession of medicine, devoting ten to twelve hours daily to it. She is the sole support of an invalid mother and yet has no *personal life insurance.*

"So, you have reached the forgotten woman doctor at last," she said, after my numerous attempts to phone her. "Now you must not permit my one-track mind to forget about that life insurance I need so badly." Emergency cases cancelled several appointments. Nine thirty at night was the earliest time she could give for an appointment. Finally, at ten o'clock, she returned high in spirit, since she had just delivered a child in an unusual and difficult case. It was in this mood that she fell back and relaxed into what she called the "pleasant business of at last planning an estate thru the Life Insurance Plan," and that turned out to be a substantial estate.

With her surplus earnings we discovered that she too was making investments indiscriminately. In convincing her that her unusual skill and outstanding ability might cease at some future time, she then considered a Life Insurance Retirement Income Plan. Under this plan, beginning at age 55, when she had expressed her desire to go into practice as a consultant, she would receive $400 monthly for life. Provision was made so that in the event of prior death, a guaranteed life income was to be payable to her invalid (*Please turn to page* 238)

YOUR HOME

As An Investment

• By A. Coleman Blum

TODAY, there is more to buying a home than simply trotting around to the office of your broker, plunking down your money on his counter and telling him, briefly but clearly, what you have in mind.

You may have given careful consideration to your position, decided that you are the "owning" and not the "renting" type, that yours is precisely the sort of income which insures that you will have no trouble paying for your property, that your residential requirements are fairly static (i.e.: you will not be bouncing about the country during the next 10-20 years). In short: you have examined all the philosophical considerations of home-ownership, and found that you qualify.

Now for the practical aspects.

Not so long ago, there was a war. During the course of this war there was no private construction. Buildings were torn down, condemned, but nothing replaced them. We developed a housing shortage. As the war dragged on this shortage became more and more critical. In large cities, industrial centers, even in hastily-organized, swiftly-built war-boom towns, the government-aided wartime housing barely kept up with the demand.

During the war, to protect rent-payers, the OPA set up rules. Its two primary regulations ruled (1) that rent of any given property was not to rise above its level of a certain date early in the war, (2) that tenants could not be evicted from rented property except when sold to a buyer who intended it for his own occupancy.

What happened is history.

Since there was no ceiling-price on home purchases, buyers bid themselves silly for properties, ousted tenants, moved in. Landlords approached already installed tenants, warned: "I can get any price I want for this property. If I sell, the new owner will kick you out. But, if you like, I'll sell you the house." Tenants bought. They had to. There was no place to go.

The result, today, is an inflation of property values (country-wide average) by some 50%. This is not as bad as it sounds. In general the war has inflated everything. Wages are up. All prices have risen sharply. Real property is merely the most evident case of the inflationary trend.

But this condition injected a new element into the home-buying transaction. There is almost no question that inflated values will ultimately decline. Thus, the man buying property now is confronted with the assurance that in 4-5 years his boom-bought property will reflect (not merely its normal depreciation — some 2% per annum) but the tremendous drop in property values as production of new buildings deflates the "seller's market." Supposing he had to sell unexpectedly?

Today (at this very moment), the $6,000 property of 1939 will set you back $9,000. Perhaps five or more years from now, should the need arise, you will be able to sell it for $4-5,000. *This is simply not good investment.*

But other factors enter in. Today, construction costs are high. If there is a boom—and everybody in realty assures everybody else (in and out of realty) there will be—they will go higher. (Since labor and materials are short, prices on these items in construction will go up before they go down.)

There are, however, houses on which deflation has already gone to work. Communities built to house workers in war production centers being, slowly but surely, evacuated. Prices of property in these areas are already declining. If you live—or want to live—in this kind of a community, the bargains will get better from day to day. But this is not particularly good housing. It was built in a hurry, planned for a short life! If you do plan to buy one of these "declining-value" properties, examine it closely.

Check, among other things, the assessment rate. If the town has an expensive government, scheduled for a boom-population and not for present evacuation-population, the costs of government will stay up for quite a while. As the population goes down, the assessment rate on occupied properties must (for a time) go up. Less people to pay taxes means more taxes per person. Governments cannot reduce overhead at the same speed as corporations.

Check: The condition of (*Please turn to page* 236)

So You Want To Go Into YOUR OWN BUSINESS?

• By William A. Howell

IN the first of this series of articles, appearing in the issue of November 10, 1945, the essential personal qualifications of the prospective independent businessman were discussed. You are convinced that you have what was described there as the "merchant instinct," plus the personality and at least a working knowledge of the basic principles governing the particular business in which you are determined to risk your capital and exploit your talents.

Let us next consider what some of these risks are—for to be forewarned is to be forearmed.

Reliable business statistics show that three out of ten independent businessmen fail during the first year, and that five out of ten last only three years, or less. Within ten years, only two out of ten of these small businesses are still solvent and going concerns. In other words, your numerical chance of success is one in five. But you are not going to be one of the four failures, so let us see what major pitfalls you should try to avoid.

In every business, regardless of its size, there are certain hazards which are always present to plague the proprietor. These are insufficient capital, poor location, overbuying, inaccurate records, and losses through the extension of too liberal credit. These are specters which haunt every business, both old and new. At any time they may take formidable and menacing shape, and the proprietor becomes a businessman without a business. They can be successfully avoided only by the utmost vigilance and application of skill and diligence. In addition, moreover, there are other hazards which, while not necessarily perennial, threaten a business in its earlier stages.

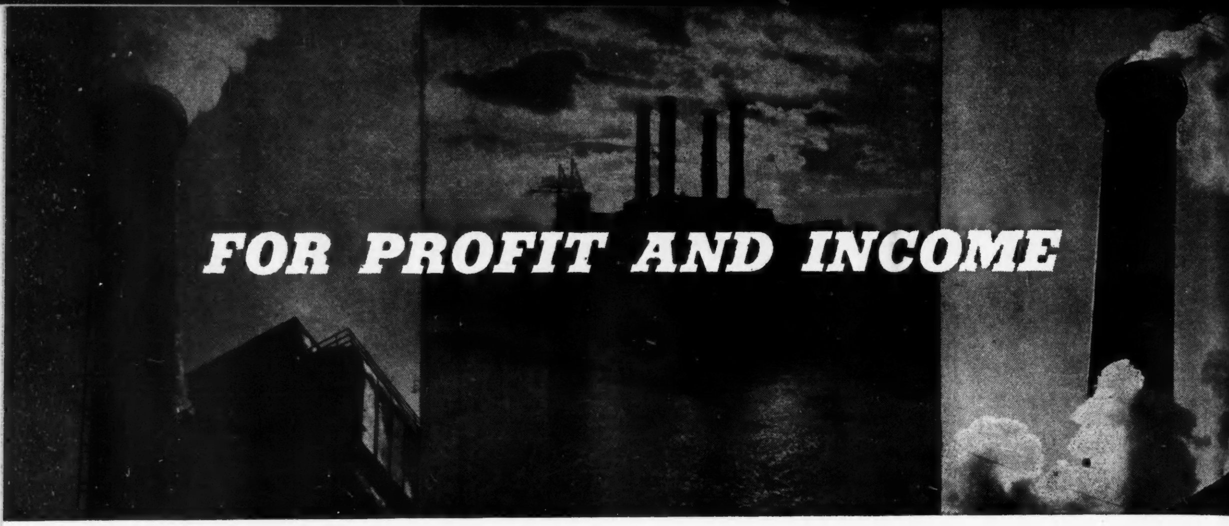
The proprietor of a small business must be extremely versatile. He must know how to buy, how to sell, and how to manage. In a large corporation, each of these phases is delegated to a corps of specialists. In a small business, the owner must be a specialist in all of them.

One of the most frequent, as well as most difficult, obstacles encountered in the first three years of a small business is the lack of experience on the part of the proprietor. This will probably be the most dangerous pitfall for many ex-service men and women planning their own business. They will forget they have been out of contact with civilian activities for possibly several years, and that many changes may have occurred which would affect the type of business they wish to enter. Their best bet would be to cast their lot with an experienced partner. Another way of avoiding many of the difficulties of pioneering is to acquire an established business, but only after thoroughly satisfying themselves that they are not acquiring somebody else's headaches. Buying a going business will require larger capital, for the present owner will justly expect to be compensated for the good will which has been built up through his own efforts. Good will is an intangible asset and its value can only be determined through mutual bargaining.

In a small business, the proprietor's careful attention to detail will be one of its most important assets. Do not neglect a single one. There are many but all serve a vital purpose.

But lacking the tempering advantages of an experienced partner, or those of an established business, the prospective businessman can still play a lone hand in a new venture—if he does not shut his ears to sound advice and uses a little plain common sense.

During the first several years, at least, he should be especially careful to avoid extravagant outlays for furniture, fixtures and other exterior appurtenances. Overstocking of merchandise should be avoided, especially so if inventory normally includes seasonal or slow moving items. Otherwise, liquid working capital will be strained and it may be necessary to resort to borrowing. Do not make the mistake of trying to stock too wide a variety of merchandise, or merchandise which is not suited to the needs or buying power of your customers. Keep fixed operating expenses as low as possible during the first years. This will mean that you will have to be salesman, bookkeeper, service-man, porter, and what have you. After you have a pretty good idea of what your business will support, then you can consider hiring people to take some of the burden from your shoulders. Finally, when you have to estimate sales prospects, make plenty of allowance for unforeseeable contingencies. Rather than make the mistake of being overly optimistic, and planning accordingly, it would be better to err on the side of conservatism. (*Please turn to page* 237)



FOR PROFIT AND INCOME

Thin Markets

Probably the stock market has never been thinner on the upside than it is now. The reduction of operations by insiders, professionals and floor traders, as a result of SEC regulation is, of course, an old story. So is the 25% (long term) capital gains tax, which discourages profit-taking, but does not inhibit investment demand when other conditions are propitious for it. There is an added factor now. Among small investors, many who might otherwise take some profits are waiting for the turn of the year when a moderately lower income tax rate will apply. Larger investors, subject to the capital gains tax, defer sales on the principle that there is at least a theoretical possibility this levy may be reduced for 1946, though the odds are greatly against it. Due to paucity of offerings, on a recent active day a number of stocks jumped 3 to 10 points on volumes of only 500 to 4,000 shares. It will work the other way, and painfully so, when in due time events turn hope into fear. But that is not in sight.

Declining Yields

The dwindling of stock yields, as a result of higher prices, continues. The average for representative, prominent industrials is now down around 3.72% but is favorable compared with bond yields. And by careful selection, one can still better the average, if income is the chief consideration. For example, yields ranging from around 4.2% to 4.5% can be obtained on such stocks as Loew's, Hiram Walker, Pacific Gas & Electric, First National Stores, Philadelphia Electric, Paramount Pictures and Electric Auto-Lite.

Can Companies

Recent behind-the-market action of American Can and Continental Can is reported due to a not too good cost-price outlook for most of 1946. Sales contracts are usually made for 12 months ahead, on a fixed price. It is understood that American will not be able to adjust prices adequately to prospective higher wages before the 1947 season; and that for competitive reasons the runner-up will go along. On the basis of medium-term earnings, both stocks appear quite adequately priced.

Mail Order Companies

Volume prospects are relatively more favorable for the mail order companies than for other branches of retail trade. Because of the scarcity or non-availability of hard goods, they have had considerably less sales expansion since 1941 than department store companies. The biggest deferred demands, of course, are in hard goods, in which the mail order firms are heavily represented normally. Thus, their sales gain in 1946-1947 will top the retail field. However, the stocks are not proportionately attractive. Montgomery Ward's benefit from EPT repeal is rather moderate, that of Sears not among the highest. At present levels, both are more generously priced on probable 1946 share earnings than stocks of various less well-known, but strong and favorably-situated retail companies.

Big Earnings Gains

Two retail stocks we have not discussed in any detail heretofore are Allied Stores and Lerner Stores. Both have had good long term growth, but with Lerner's rate of expansion since 1929 the most pronounced. On the reduced tax basis, this company would have earned about $4 a share last year, against $1.62 reported. It should approximate $4 next year. Around 30, the stock looks reasonably priced. However, Allied is relatively more attractive on a price basis. Taxes have been taking around 80% of pre-tax income. On the 38% rate, 1944 net would have been $7.55 a share, against $3.42 reported. The company ought to come close to the larger figure in 1946. On the most conservative projection, the stock, now around 40, is priced at less than 8 times indicated earning power at a boom level of peacetime trade. However, both have had good recent advances and are not immune to reaction.

Radio Stocks

Output of radio sets in big volume has been delayed for a number of reasons, including the fact

that manufacturers have no particular reason to hurry while 1945 tax rates are in effect. But do not be deluded. This industry can grind out sets by the millions when it gets around to it; and the sellers' market, if there is one at all, will not last more than a few months. Competition will be rugged. As one straw in the wind, it is reported that RCA-Victor has made a deal with Woolworth under which this erstwhile 5-and-10 chain will retail an RCA set at $10. It will be interesting to see what earning power will be, over the longer range.

The Same Goes

The same goes for stocks of most makers of light household equipment, such as Maytag and Eureka Vacuum Cleaner. They appear to have discounted the catching-up boom pretty generously. It should not be so very long before they begin to discount what they are going to catch in the way of competition and narrow profit margins. True, there is big volume ahead in the whole field of household equipment. The trouble is that it is competitively crowded, and now more so than ever. Floor coverings represent the only branch of the field not facing important new competition. Some of the latter stocks, such as Armstrong Cork, Congoleum, Bigelow-Sanford and Mohawk Carpet Mills, probably still have possibilities but are far and long since removed from the bargain counter.

Oils

Oil company earnings in most cases will be somewhat lower in 1946 than in either of the last two years, although it seems likely that the trend will turn upward again in 1947. The less favorable medium-term prospect caused oils to lag for some weeks after the end of the war. Their much stronger recent action indicates that investors again are giving most weight to the longer-term possibilities. There are few oils about which so many favorable things may be said as Continental Oil. It follows the unusually conservative practice of charging intangible drilling costs to current income, which makes for understatement of earning power in periods of active drilling. This charge has been heavy during the war years. Since there will be less drilling next year, Continental's net should hold close to wartime levels, ranging from $3.19 a share in 1942 to $2.57 last year. There is a fair chance it will top last year. This company produces crude oil far in excess of refining needs. Hence, it will benefit largely from long term rise in oil prices, as appears suggested by secular demand-supply factors, though it certainly is not nearby. On all counts, including strong finances and a dividend yield of about 4%, this appears to be one of the best oils for long term holding.

STOCKS RECENTLY SHOWING ABOVE AVERAGE MARKET STRENGTH

Alaska Juneau	Nat. Acme
American Tobacco	Paraffine Cos.
Atchison	Phillips Petrol.
Budd Wheel	Shell Union Oil
Cannon Mills	U. S. Playing Card
Hazel Atlas Glass	Warner Bros.
Mack Trucks	Phoenix Hosiery
Master Electric	Gt. Western Sugar

Parke, Davis

Though they have not been in the highest EPT brackets, many drug manufacturers nevertheless will benefit importantly from the elimination of this levy, in combination with a favorable volume prospect. One of the best companies is the old and ably-managed Parke, Davis & Co. Sales last year were about 27% over the 1941 level, partly reflecting substantial Government business. Only a moderate medium-term decline in sales is indicated. Federal taxes last year took about 57% of pre-tax net. On a 38% tax rate we project earning power of at least $2 a share, perhaps $2.25, comparing with $1.55 last year and a prewar high of $1.88. Finances being strong, dividends have always been liberal in relation to earnings. Indeed, over the 10 years 1932-1941 dividend averaged about 97% of earnings. On the record, the earnings projection heretofore ventured would suggest possible dividends of around $1.90 to $2.15, against $1.30 last year, which was 84% of earnings. This stock is now around 36. On a $1.90 rate the yield would be 5.2%, on $2.00 it would be 5.5%; and on $2.15 it would be about 6%. It is, of course, a stock for conservative investors.

Investment Trusts

From June 30 to September 30 the total assets of the 30 largest investment trusts rose from $1,214 million to $1,283 million, or by about 5.7%. During the same time, the Dow industrial average advanced from 165.29 to 181.71 or by about 10%. Of course, holdings of the trusts are not by any means all in common stocks. Among other things, a fair amount of idle cash is held; and most trusts have been inclined to increase this ratio a bit during the second half of the year. Making no claim to clairvoyance or all wisdom, they just get more conservative as the market goes higher. Not a bad idea.

Possibilities

A stock with interesting possibilities over the longer-term is Briggs & Stratton. With no debt, capitalization is only 297,149 shares of capital stock. Earnings reached $4.29 a share in 1937. They were $3.23 last year, with a tax rate of 80%. With indicated peacetime volume much over prewar, though less than last year's $23.64 million, this department would not be surprised at substantially higher postwar net. The stock is around 56. Products are automobile locks and small gasoline engines.

Among Utilities

Utilities have been the most consistent group in this year's market rise, plugging persistently up with but modest and brief corrective recessions. In fact, there has not been a set-back of as much as 5% during the entire bull market to date. Exception could be taken to the fact that too much of the present enthusiasm centers on holding company common stocks of radically speculative quality. But there is no denying that real investment cash continues to flow into good operating company stocks. Yields are still relatively attractive.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

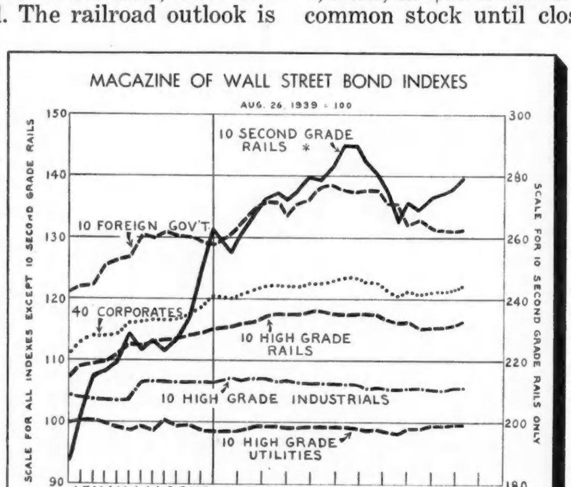
BY JACKSON D. NORWOOD

MARKET TRENDS: The Magazine of Wall Street's index of bond prices showed the following changes during the period indicated:

	On Oct. 27	On Nov. 10	
Forty Corporate Bonds	121.6	122.2	+ .6
Ten High Grade Rails	115.9	116.3	+ .4
Ten Second Grade Rails	275.5	279.8	+ 4.3
Ten High Grade Utilities	99.5	99.6	+ .1
Ten High Grade Industrials	105.5	105.5	——
Ten Foreign Governments	131.0	131.2	+ .2

The past fortnight brought no developments of a nature to alter the fundamental position of the bond market, and the firmness in all sections of the list which has characterized the trend for some weeks continues to be the feature. Nor is there any reason for anticipating any appreciable change for the balance of the year. With new underwriting held in abeyance during the Victory Loan drive, public interest in the bond market has subsided somewhat. It is possible that the closing weeks of the year, however, may bring a sharp increase in new offerings, as companies hasten to take final advantage of the opportunity to refund issues, and charge the redemption premium against 1945 excess profits taxes.

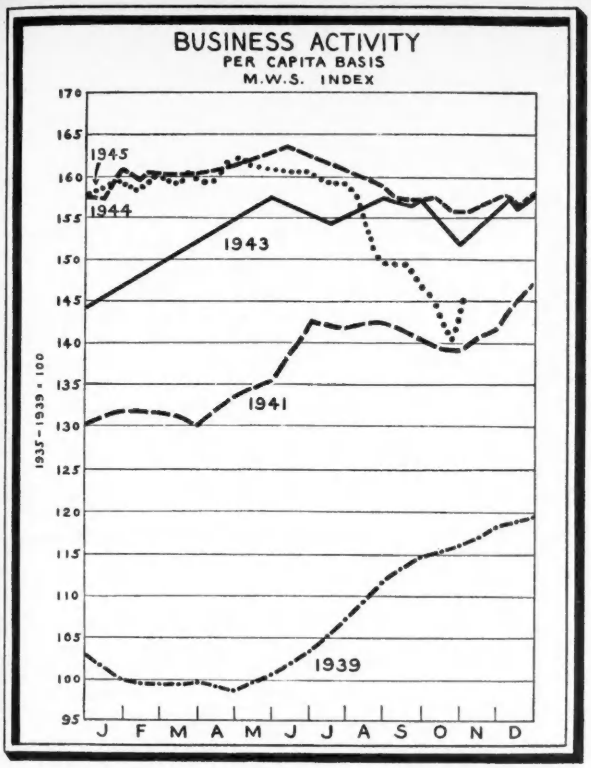
Strength in the second grade rail group noted above reflects renewed public interest in such issues both for the better-than-average yield and speculative possibilities, particularly in the obligations of receivership roads. Interest was heightened by the possibility that the original plan for reorganization of Missouri Pacific may be revised to give effect to the greatly improved finances of the road, since the original plan was conceived. The railroad outlook is favored by the large cash accumulations of nearly all major roads and the likelihood that traffic volume over the coming months will be well sustained.



NEW ENGLAND GAS & ELEC. ASSN. debenture 5's 1950. Recently quoted around 96 to yield about 5.2 per cent currently, this issue appears well suited for placement of short term funds of income investors. In the current era of historically low bond yields, a return of better than 5 per cent is generally obtainable only from issues of lesser quality. While not a high grade medium, these debentures are reasonably well safeguarded. Revenues for the twelve months to Sept. 30, last, were moderately higher than a year ago and a coverage of 1.49 times was afforded for all fixed charges. The company, in compliance with the Holding Company Act, filed a plan of recapitalization earlier this year which, however, has been held up pending disposition of a claim for $30 million against the company by the Associated Gas & Elec. System. This plan provides that the company will retain its status as a holding company, but with investments confined to operating units in Massachusetts. Holders of the debentures would be given $700 new 3⅞% collateral trust bonds, 9 shares of new common stock, 1-1/15 shares New Hampshire Gas & Elec. Co., and $25 in cash. This plan may subsequently be altered, but there is good basis for believing that ultimately the debentures will be worth at least their face value.

NOTES: International Paper will redeem $22,650,000 first lien and general 3⅝'s on Dec. 10, at 103. Funds will be obtained through a 2% bank loan, payable over a ten-year period. . . . Electric Bond & Share has been authorized to distribute $30 a share to holders of $6 and $5 preferred stocks. Distribution was made Nov. 23. . . . Electric Pwr. & Lgt. has filed with the SEC a plan to enable holders of $7 and $6 preferred shares to exchange their holdings voluntarily for common stock of United Gas Corp. Basis of exchange offer will be announced later. . . . Entire issue of Greenfield Tap & Die $1.50 preferred stock has been called for redemption on Dec. 6, next, at $32 a share. Shares are convertible into common stock until close of business Dec. 5, 1945. . . . Proposed recapitalization plan of Pennsylvania-Dixie Cement provides that present preferred stock will be exchanged for four shares new $7 par capital stock.

CROWN DRUG: The 7% preferred shares (par $25) of Crown Drug are a fairly sound investment vehicle. Recently quoted on the N. Y. Curb around 31, the issue yields about 5.8 per cent. Company operates a chain of retail drug stores, numbering some 80 units, most of which are located in Kansas City and elsewhere in (*Please turn to page* 237)



SUMMARY

MONEY AND CREDIT—Third quarter net income reported by 320 leading industrial corporations 10% below last year; but 9 months up 2.5%. Third quarter dividends a shade under last year.

TRADE — Retailers look for record Christmas sales. Department store sales up 11% in year to Nov. 3.

INDUSTRY — Business activity rises 4.5% in three weeks following return to work at refineries and coal mines. Unemployment declines during September. Idleness cut more than half in two months ended Oct. 13.

COMMODITIES — Expanding export and home demand lifts spot and futures price indexes to new altitudes. Agriculture Department expects major crop prices to remain high for at least another year.

The Business Analyst

The nation's physical volume of **Business Activity** has recovered 4.5% during the three-week period ended Nov. 10 in consequence of resumed operations at oil refineries and soft coal mines. Among the eight components of our weekly business index, soft coal production has more than doubled since the strikes were called off, refinery runs have increased a third, and carloadings have gained one-sixth.

* *

Business Activity for the month of October was 147.6% of the 1935-9 average—4% lower than in September and 7% below October, 1944. For the first ten months, total business volume was only 1% lower than for the like period last year.

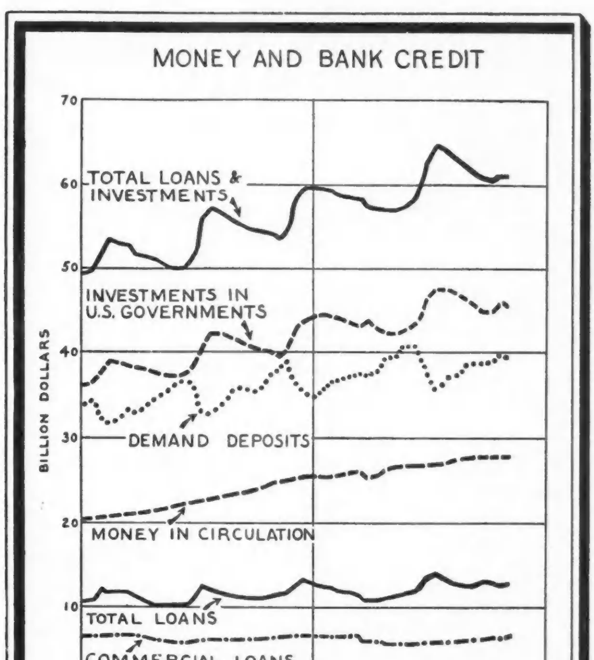
* *

With the strike now entering upon its third month, **Lumber** shipments continue to decline at a time when that basic material is most needed to expedite construction of new housing. The longer the strike continues the greater will become the inflationary pressure upon rents and realty prices. Prices for suburban residences are already zooming.

* *

To offset increased construction costs, the OPA has declined to permit a 15% to 25% rise in

(Please turn to the following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	Nov. 7	1.02	1.22	1.80	4.03
Cumulative from Mid-1940	Nov. 7	315.7	314.7	231.4	14.3
FEDERAL GROSS DEBT—$b	Nov. 7	262.2	261.8	210.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Nov. 7	45.3	39.6	37.6	24.3
Currency in Circulation	Nov. 7	28.0	28.0	24.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Nov. 7	6.12	6.17	5.36	3.92
100 Other Cities—$b	Nov. 7	7.26	7.20	7.31	5.57
INCOME PAYMENTS—$b (cd)	Aug.	12.74	13.58	12.58	8.11
Salaries & Wages (cd)	Aug.	9.09	9.44	9.30	5.56
Interest & Dividends (cd)	Aug.	0.50	0.96	0.49	0.55
Farm Marketing Income (ag)	Aug.	1.83	1.81	1.69	1.21
Includ'g Govt. Payments (ag)	Aug.	1.88	1.91	1.74	1.28
CIVILIAN EMPLOYMENT (cb)m	Oct.	51.9	51.3	53.9	52.6
Agricultural Employment (cb)	Sept.	8.8	9.0	9.3	8.9
Employees, Manufacturing (lb)	Sept.	12.1	13.8	15.8	13.6
Employees, Government (lb)	Sept.	5.9	5.9	6.0	4.5
UNEMPLOYMENT (cb) m	Oct.	1.5	1.6	0.6	3.4
FACTORY EMPLOYMENT (lb4)	Sept.	123	142	166	147
Durable Goods	Sept.	142	181	224	175
Non-Durable Goods	Sept.	109	112	120	123
FACTORY PAYROLLS (lb4)	Aug.	257	286	335	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Aug.	40.8	44.0	45.2	40.3
Hourly Wage (cents)	Aug.	102.5	103.2	101.6	78.1
Weekly Wage ($)	Aug.	41.81	45.42	45.88	31.79
PRICES—Wholesale (lb2)	Nov. 2	105.9	105.7	104.0	92.2
Retail (cdlb)	Aug.	142.2	142.4	138.6	116.1
COST OF LIVING (lb3)	Aug.	129.2	129.4	126.4	110.2
Food	Aug.	140.9	141.7	137.7	113.1
Clothing	Aug.	146.2	145.7	146.2	113.8
Rent	Aug.	108.3	108.3	108.2	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Sept.	6.19	6.09	5.76	4.72
Durable Goods	Sept.	0.90	0.91	0.89	1.14
Non-Durable Goods	Sept.	5.29	5.18	4.87	3.58
Dep't Store Sales (mrb)	Sept.	0.55	0.48	0.52	0.40
Retail Sales Credit, End Mo. (rb2)	Sept.	2.19	2.15	2.12	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	144	183	203	181
Durable Goods	Aug.	77	180	231	221
Non-Durable Goods	Aug.	182	185	186	157
Shipments (cd2)—Total	Aug.	228	247	264	183
Durable Goods	Aug.	274	320	366	220
Non-Durable Goods	Aug.	196	197	193	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Aug.	26.8	26.4	27.7	26.7
Manufacturers'	Aug.	16.3	16.2	17.2	15.2
Wholesalers'	Aug.	3.8	3.7	4.0	4.6
Retailers'	Aug.	6.7	6.5	6.5	7.2
Dept. Store Stocks (rb)—I	Aug.	186	188	171	139

PRESENT POSITION AND OUTLOOK

(Continued from page 219)

Rents for new housing facilities; but refuses to lift rental ceilings on old structures. Contractors claim this is not enough; yet the Commerce Department predicts that **Construction Volume** next year will top 1945 by 60%, if the current shortage of materials and skilled labor can be overcome without too much delay.

* * *

Automobile production is likely to be slowed by lack of **Castings.** Currently there is an estimated shortage of 60,000 men for "hot, heavy and dirty" foundry jobs. Shortage of coal, consequent upon the recently called-off strike, will slow **Steel** deliveries for another month or two.

* * *

In its just released report for October, the Census Bureau has inaugurated a long needed innovation in **Unemployment** statistics by submitting separate estimates of the number actually Unemployed (actively seeking work, but not yet placed) and the number who are merely idle (have a job or business, but were not working during the census week because of illness, bad weather, vacation, labor dispute, or because of temporary lay-offs with definite instructions to return to work within 30 days of lay-off).

* * *

During the three-month interval between early July and early October, according to the Census Bureau, the number of civilians 14 years and over in the United States increased by 1,890,000. Of this increase, 1,680,000 was accounted for by net discharges from the Armed Forces and the remainder, 210,000, by population growth. Yet, despite this increase in the number of civilians of employable age, **Unemployment** increased only 570,000. Meanwhile the number not in the labor force (of working age; but neither having nor looking for work) increased by 3,720,000; thereby indicating retirement, for the time being at least, of 1,830,000 from the labor market. The same figure is reached by noting that a decline of 2,400,000 in employment during the three months was accompanied by an increase of only 570,000 in unemployment. The difference here is also 1,830,000.

* * *

Of particular interest is the Census Bureau's estimate of the number **Idle** (with a job, but not working), which dropped from 3,430,000 during the first week of August to only 1,640,000 in the second week of October. Of course vacations must have been near their peak in early August, while a considerable part of withdrawals from the labor force in October was probably occasioned by the inclination of returning veterans to visit with friends and relatives before seeking work. But the overall picture of the unemployment situation as conveyed by this survey hardly justifies the fears of alarmists.

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Nov. 3	145.0	143.5	156.0	141.8
(M. W. S.)—I—np	Nov. 3	158.1	155.2	166.5	146.5
INDUSTRIAL PROD. (rb)—I—np	Sept.	172	187	230	174
Mining	Sept.	135	141	143	133
Durable Goods, Mfr.	Sept.	208	243	342	215
Non-Durable Goods, Mfr.	Sept.	154	157	168	141
CARLOADINGS—t—Total	Nov. 3	852	855	893	833
Manufactures & Miscellaneous	Nov. 3	369	368	412	379
Mdse. L. C. L.	Nov. 3	116	117	109	156
Grain	Nov. 3	59	52	54	43
ELEC. POWER Output (K.w.H.) m	Nov. 3	3,899	3,937	4,355	3,267
SOFT COAL, Prod. (st) m	Nov. 3	12.5	12.1	12.0	10.8
Cumulative from Jan. 1	Nov. 3	482	470	531	446
Stocks, End Mo.	Sept.	53.3	51.1	64.9	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Nov. 3	4.3	4.3	4.7	4.1
Gasoline Stocks	Nov. 3	76.4	74.3	78.1	87.8
Fuel Oil Stocks	Nov. 3	46.1	45.9	63.5	94.1
Heating Oil Stocks	Nov. 3	44.9	43.5	47.3	54.8
LUMBER, Prod. (bd. ft.) m	Nov. 3	279	267	601	632
Stocks, End Mo. (bd. ft.) b	Sept.	3.2	3.3	3.4	12.6
STEEL INGOT PROD. (st.) m	Oct.	5.62	5.98	7.62	6.96
Cumulative from Jan. 1	Oct.	67.5	61.9	74.5	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Nov. 8	45.8	87.8	8.8	93.5
Cumulative from Jan. 1	Nov. 8	1,869	1,823	1,548	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	Nov. 3	156	157	158	165
Cigarettes, Domestic Sales—b	Sept.	26.4	28.5	20.0	17.1
Hosiery Production (pairs) m	Aug.	135	115	144	150
Footwear Production (pairs) m	Aug.	41.5	36.3	41.2	34.8
Hide & Lthr. Stks., End Mo., (hds.) m	Aug.	12.3	12.0	11.2	14.0
Portland Cement Production (bbls.) m	Aug.	9.9	9.2	9.0	14.9

PRESENT POSITION AND OUTLOOK

(Continued from page 220)

* * *

It would not be surprising to hear demands from the social planners that the present Director of the Census be dismissed for publishing the truth about unemployment. The facts seem to be that, even if the number idle were lumped with the number actually unemployed, the total early in October would still have been 1.1 million smaller than two months earlier.

* * *

Stores throughout the country are looking forward to record Christmas sales. They have already made out pretty well this year, as evidenced by the 11% increase in Department Store Sales up to Nov. 3. For the most part, **Retailers** are doing better than **Wholesalers.** In September, for example, sales by the latter were 3% under a year earlier in contrast with the 2.5% increase reported by retail stores. Moreover, wholesale prices are averaging only 1% above last year, against a 2.5% rise in retail prices.

* * *

Merchandise scarcities and OPA evasion of the quality issue, help to explain the situation. Throughout the year, wholesalers' inventories have been running behind, and retailers' invetories ahead of, last year. And it's harder to sell substandard goods to the stores at fancy prices than to the public.

Ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Avge. Month. 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without comparison for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

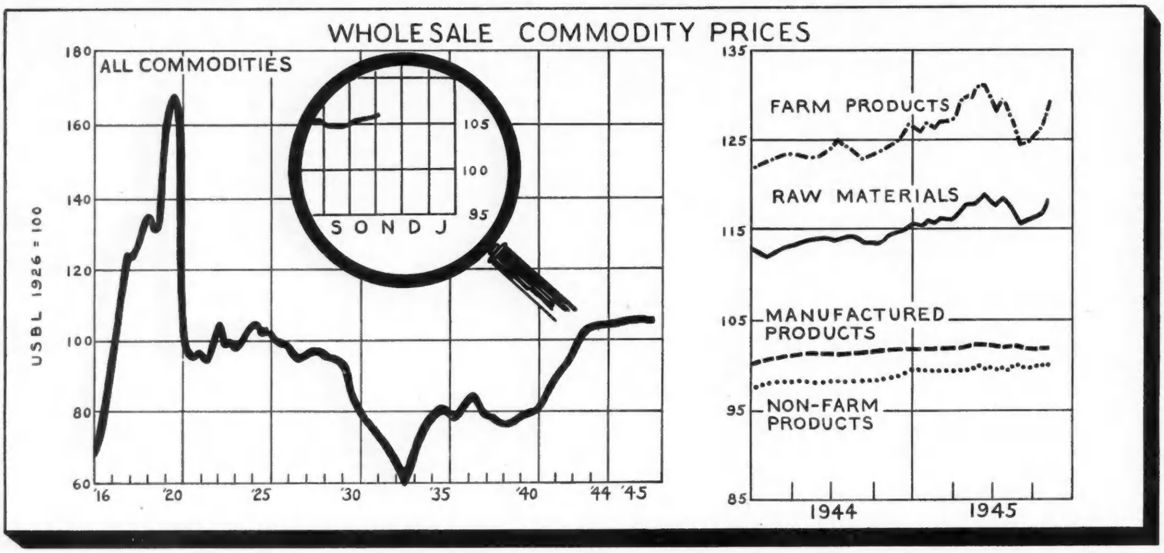
No. of Issues (1925 Close—100)	1945 Indexes High	Low	Nov. 3	Nov. 10
290 COMBINED AVERAGE	157.5	105.0	153.2	157.5R
4 Agricultural Implements	205.5	160.5	202.5	205.5H
10 Aircraft (1927 Cl.—100)	220.2	156.0	216.3	220.2E
6 Air Lines (1934 Cl.—100)	1097.8	559.6	1097.8Z	1094.1
5 Amusement	120.5	78.9	115.6	120.5P
13 Automobile Accessories	273.8	178.2	270.9	273.8Z
12 Automobiles	50.3	33.8	49.3	50.3
3 Baking (1926 Cl.—100)	20.9	14.3	19.8	20.9H
3 Business Machines	283.7	221.3	283.4	282.7
2 Bus Lines (1926 Cl.—100)	165.7	123.5	164.7	165.7U
4 Chemicals	233.1	189.2	226.3	233.1H
4 Communication	92.2	73.5	90.3	92.2J
13 Construction	62.3	42.3	61.8	62.2
7 Containers	388.8	276.5	382.5	388.8Z
8 Copper and Brass	101.3	74.8	98.4	101.3E
2 Dairy Products	66.2	47.6	64.5	66.2P
5 Department Stores	76.7	39.8	71.3	76.7R
5 Drugs and Toilet Articles	197.1	117.6	188.1	197.1R
2 Finance Companies	297.0	222.1	276.4	276.0
7 Food Brands	206.9	134.5	201.2	206.9Z
2 Food Stores	78.9	56.1	77.9	77.2
4 Furniture	107.1	81.6	105.8	105.8
3 Gold Mining	1158.0	938.3	1110.0	1155.2

(Nov. 14, 1936, Cl.—100)	High	Low	Nov. 3	Nov. 10
100 HIGH PRICED STOCKS	99.02	73.59	98.70	99.02H
100 LOW PRICED STOCKS	190.53	112.22	184.19	190.53Y
6 Investment Trusts	67.2	44.7	64.8	67.2P
3 Liquor (1927 Cl.—100)	907.2	391.0	907.2Z	883.7
8 Machinery	197.2	137.5	190.4	195.2H
2 Mail Order	144.7	96.7	144.1	144.7Q
3 Meat Packing	115.9	68.6	110.8	115.9M
11 Metals, non-Ferrous	219.6	149.0	215.4	219.6H
3 Paper	33.2	18.9	32.9	33.2P
22 Petroleum	179.7	142.5	175.9	179.7S
19 Public Utilities	136.0	55.4	119.8	136.0P
5 Radio (1927 Cl.—100)	34.9	27.5	34.6	34.7
7 Railroad Equipment	92.4	68.9	91.8	91.7
21 Railroads	37.5	22.8	35.7	35.3
2 Shipbuilding	120.0	89.9	120.0D	114.1
3 Soft Drinks	576.3	394.8	576.3Z	568.1
12 Steel and Iron	117.0	82.8	116.4	117.0H
3 Sugar	71.6	55.2	66.8	71.6R
2 Sulphur	247.9	173.5	246.3	247.9Q
3 Textiles	113.2	58.5	106.3	113.2R
3 Tires and Rubber	44.6	33.9	44.0	43.2
5 Tobacco	94.9	67.5	92.3	94.9H
2 Variety Stores	315.6	255.6	309.2	315.6H
21 Unclassified (1934 Cl.—100)	139.9	100.0	137.9	137.3

New HIGH since: D—1941; E—1940; H—1937; J—1936; M—1933; P—1931; Q—1930; R—1929; S—1928; U—1926; Y—Nov. 14, 1936. Z—New all-time HIGH.

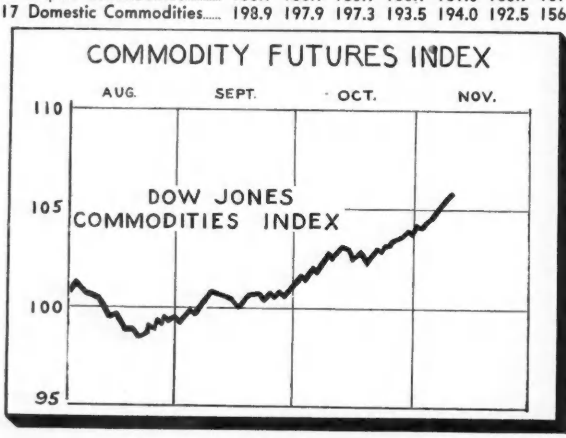
Trend of Commodities

Spurred by continually expanding export and domestic demand, along with persistent efforts to persuade Congress to legislate higher support prices for farm products, all of the better known indexes of farm prices, both spot and futures, have risen to new heights since our last issue. Rye futures sold above wheat for the first time since world war I. Wheat deliveries are still being hampered by the box car shortage which could become acute in event of heavy winter snowstorms. Agriculture Secretary Anderson is opposed to enactment of the Pace bill to include farm labor costs in the parity formula. To do so would lift the parity price of wheat by 50 cents a bushel and cotton nearly 7 cents a pound. Labor adds about 32% to the cost of producing a crop. The Agriculture Department's Nov. 1 forecast places the 1945 cotton crop at only 9,368,000 bales—411,000 bales under the Oct. 1 forecast. It is believed, however, that cotton prices have about reached their peak; since the CCC will begin selling its stocks when the price reaches 25 points above parity, in accordance with an agreement reached with the OPA in lieu of a ceiling. In the trade it is believed that such action should not prevent a further advance in fine grade cotton, since most of the 5 million bales held by the CCC is of lower grade. The Agriculture Department predicts that heavy export and home demand will keep prices for wheat, rye and rice at high levels for at least another year; while feed grains, except oats, will remain high through the 1946-7 season. OPA Chief Bowles expects most food price controls to end by next spring; though sugar will be rationed through 1946.



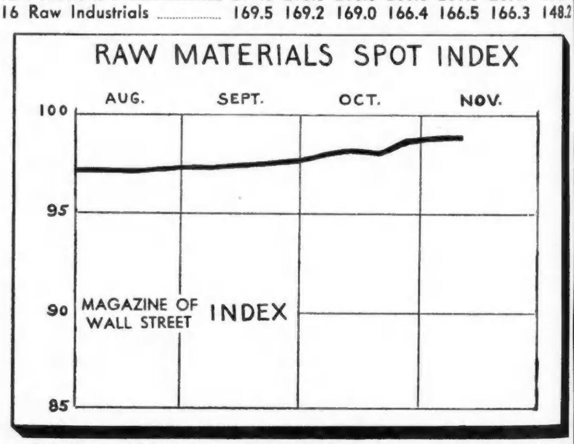
U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

	Date Nov. 10	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	186.6	186.0	185.6	183.4	183.8	162.8	156.9
11 Import Commodities	168.9	168.9	168.9	168.9	169.0	168.7	157.5
17 Domestic Commodities	198.9	197.9	197.3	193.5	194.0	192.5	156.6
7 Domestic Agricultural	232.3	231.2	229.4	226.0	227.6	222.6	163.9
12 Foodstuffs	211.8	210.6	210.0	208.5	209.3	207.1	169.2
16 Raw Industrials	169.5	169.2	169.0	166.4	166.5	166.3	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	105.85	98.13	96.57	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.59	45.03	52.03



14 Raw Materials, 1923-5 Averages equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.8	97.6	96.0	89.1	85.7	78.3	65.8	93.8
Low	96.7	94.9	89.3	86.1	74.3	61.6	57.5	64.7

HOW TO MINIMIZE THIS YEAR'S TAXES

(*Continued from page* 192)

to the result ½ of the net capital gain and the total will be what you owe. It should be noted that "net capital gain" prior to this step had already reflected a halving of the long term capital gain so that in effect the second bisection will limit the tax to 25% of the actual gain achieved by the tax payer from this portion of his income. Unless your surtax net income exceeds $16,000, including the net capital gains reported, your over-all tax rate may be considerably less than the 25% mentioned, according the amount of your other income, but on your long term net gains it can never exceed this percentage. In the past so much publicity has been given to the subject of "wash sales" that some explanation of the term appears timely. Where a profit results from the sale of a stock, the rule imposes no objection at all to an immediate re-purchase of the identical security. This is important to remember as in weighing all potentials in your security list, only half as many short term losses (taken into account at 100%) will be required to offset long term gains (accountable at 50%), and an investor might be reluctant to seize the opportunity because of a desire to hold his position in one of the stocks. Distinctly forbidden, however, is it to claim a loss upon a stock if a repurchase is effected within a 30 day limit or any secret arrangement made to reacquire the security at a set price and future date. These subterfuges to get around the law have resulted in much distress, and it goes without saying that they are strictly taboo.

Innumerable fine distinctions in the Capital Gains Tax could be discussed but in the scope of an article such as this only the major principles can be brought to light. In practice so many rulings and changes have been made that to more than touch on the broader outlines of the law would be impractical. It is hoped that the fundamentals discussed may clarify the picture to an extent where investors may save some money for themselves during coming weeks and in the process liberalize their investment programs somewhat if self-study discloses that they have become too static. The time is particularly ripe to shed sentiment or hesitation and to scrutinize portfolios with an intelligently constructive eye, for while the current bull market has established impressive price gains for many issues, plenty of others are selling well below their 1937 highs. Thus selectivity may suggest some potentially good substitutions, and when decision matures, a better understanding of possible tax savings may help matters, for both paper losses and profits may enter the picture.

While the mere fact that prices of certain stocks have lagged behind the general market compared with 1937 levels may be a poor criterion of their fundamental merit, it enhances the possibility that many investors might be able to establish a loss through their sale, provided of course that the changing economic picture affords equal or better potentials for appreciation or income. On the other hand, paper profits on a broad scale have accrued to a host of investors, and in individual cases caution or wisdom may create an urge to cash in. Over the longer term, when the battle over wages and prices subsides, industrial prospects appear rosy, but to just what extent the stock market has already discounted these potentials requires careful appraisal.

For convenient reference we have appended a tabulation of a few stocks which currently are selling below their 1937 highs, as well as a list of concerns which to us, at least, appear to have encouraging potentials. For special reasons, including price, many of the apparent "laggards" might prove to be a fortunate purchase rather than a sale, and we wish to make clear that in listing them, the purpose was confined to factual presentation of relative prices only, and to disclose possible chances to establish losses for income tax payers. Where profits are taken on longer term holdings, the bulk of them will remain the property of the owner.

LOW PRICED UTILITIES REAPPRAISED

(*Continued from page* 205)

of this company's properties are in South America, the future trend of South American exchange rates may play an important role in the company's progress, as will also our business and political relations with the principal countries of Latin America, particularly Argentina.

Electric Power & Light has advanced from the 1942 low of 5/8 and the 1945 low of 3 7/8 to the recent high of 19 1/8. Earnings in 1943 dropped twenty cents a share and as recent as last Spring were figured around the 50c level. But the 1944 report, which appeared quite late, indicated that previous earnings included substantial write-offs. Ending of these write-offs, together with savings due to refunding operations, have raised earnings to somewhere around the $2 level. Some further savings of this kind may be available in 1945, and tax savings are estimated at $1.70 a share. While some of these tax gains may duplicate the refunding savings, it looks as though 1946 share earnings might be around the $3 to $4 level—quite a change from the picture of 1943! (Of course, these figures must be "discounted" because of preferred arrears.)

The company appears to be doing a good job in its relations with the SEC and it is quite possible that it will continue in business as a holding company. Its bonds are being retired and it recently announced a plan to dispose of the preferred stocks (with their large arrears) by offering in exchange the stock of United Gas Corp. the exact number of shares has not yet been indicated and will doubtless be fixed by amendment when the plan is approved in principle—thus avoiding a firm commitment based on the present price of United Gas. Formerly it was thought that the company might have to disburse all of its holdings in United Gas to preferred stockholders; now it seems possible, with the advance in the market, that some of it may be retained, and later sold for the benefit of the common stockholders. Until the preferred with its arrears is retired, it is difficult to estimate just how much of prospective 1946 earnings can be retained for the common stock. However, due to the tax savings next year, there appear to be further appreciation possibilities for the common.

Niagara Hudson Power is engaged in a program of recapitalizing its sub-holding company, Buffalo, Niagara & Eastern (as indicated above). In order to finance retirement of the latter's $1.60 second preferred stock, the parent company will have to incur a substantial bank loan which will later be paid off through sale of part of its equity interest. The company has recently begun to dispose of certain miscellaneous assets, such as its holdings of Central Hudson Gas & Electric, and the cash thus realized will aid the program. While it is difficult to appraise the exact results, and tax savings appear to be relatively small (only about 19c a share, it is estimated) the stock may have some further appreciation possibilities.

Long Island Lighting is one of the very low-priced issues which has been active marketwise recently. However, statistically the stock appears quite unattractive at 1 5/8 (it sold at 2 earlier this year). The company presented a plan to the Public Service Commission of New York about a year and a half ago, and after about six months' delay this was approved and immediately inserted in the Articles of Incorporation. However, this plan did not appeal to some of the preferred stockholders, who carried their grievances to the SEC. Although Long Island Light is an intrastate company by the usual standard of location, the SEC claimed jurisdiction, apparently on the ground that the company services aviation and other concerns. The company fought this contention in two Federal Courts and won, but decided not to carry the fight to the Supreme Court. Instead it registered as a holding company and, presumably in cooperation with the SEC, prepared a new plan which was recently filed. Under this plan the holder of 100 shares would receive only 1 5/6 shares of new common, making his present holdings worth only

(*Please turn to page* 231)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Charles Pfizer & Co., Inc.

Please advise what products Chas. Pfizer & Co. manufacture and what the long term outlook for this company is?

—T. R., Milwaukee, Wisc.

Chas. Pfizer & Co., Inc., was incorporated in New Jersey in April 21, 1900 as successor to partnership formed in 1849.

Company manufactures fine organic chemicals, including citric acid and the citrates, ascorbic acid (vitamin C), riboflavin (vitamin B-2), gluconic acid and the gluconates, tartaric acid and the tartrates, the oxalates and salts of mercury, iodine and bismuth.

Also manufactures other fine chemicals for medicinal, pharmaceutical and industrial uses, such as bismuth sals, mercurials, iodes, phenolphthalein and penicillin.

Net sales for the year ended December 31, 1944 amounted to $24,436,390. Net Profit $2,335,084 compared with net sales of $16,745,809 and net profit of $1,783,773 in 1943.

The common stock was split 3 for 1 in April 1945. Earnings adjusted to the split up were $1.56 a common share for 1944. Net income for the nine months ended September 30, 1945 amounted to $1,386,010 equal to 92 cents a share on the 1,500,000 shares outstanding. Dividend paid thus far this year amounted to 75 cents a share.

This company is a very important factor in the production of penicillin and as the demand for this product indicates increased use and also for company's other products, the long term outlook for Pfizer & Co. is favorable.

Philip Morris & Co., Ltd.

I would appreciate your opinion on Philip Morris & Co., stock.

—K. T., Seattle, Wash.

This company's progressive management has won fourth place in sales volume for its cigarette in a relatively short time.

Annual sales of Philip Morris cigarettes, its principal product, have expanded sharply each year from the $218,000 in the introductory year of 1933 to $167,584,000 in 1944.

Earnings in recent years have been well sustained. 1942, $3.05; 1943, $2.90; 1944, $2.97. These figures give effect to the 2 for 1 stock split of July 1945.

Profits this year will be helped by easing of tobacco and manpower shortages and reduction in taxes. $2.25 a share in dividends have been declared this year. Balance Sheet as of March 31, 1945 showed total current assets of $99,869,295. Total current liabilities $30,294,189, Net Current Assets $69,575,106. Total Sales for the year amounted to $185,299,150.

The growth trend of this company continues upward.

Mengel & Co.

Please furnish information on Mengel & Co., am particularly interested in recent earnings, dividends and postwar outlook. I am enclosing a self-addressed, stamped envelope for a reply.

—A. P., Norwalk, Conn.

This company was founded in 1877. It was incorporated in 1899, in New Jersey, as Mengel Box Co., name changed to present one on April 1920.

Company manufactures and sells lumber, plywood and veneers; lumber cut and finished to dimensions for use of manufactures in various lines of business; corrugated shipping containers; wood boxes; export shipping cases; flexglass; bedroom and novelty furniture; kitchen cabinets; and mengelbord, a plywood wallboard,

Wood parts are controlled in company's operations from forest to finished product.

Company has extensive timber holdings in Louisiana and Mississippi adjacent to its southern mills and operates logging railroads and rolling stock, river equipment, etc.

In July 1943, company and United States Plywood Corp., jointly formed a sales corporation, U. S. Mengel Plywood Inc., in which company owns 51% of outstanding voting stock and 49% (including directors' qualifying shares) of non-voting stock.

Mengel Co. recently acquired the Foreman, Derrickson Veneer Company of Elizabeth City, N. C. This latter company operates a hardwood plywood mill with an annual capacity of 20,000,000 feet and the company owns sufficient timber to assure a fifteen to twenty-year operation. The timber is predominantly of species highly suitable for plywood manufacture.

Net Sales for 1944 totaled $25,060,156. Net profit after all taxes amounted to $881,989 equivalent to $1.72 a common share.

Net Sales for six months ended June 30, 1945 totaled $13,854,000. Net profit $515,000 equal to $1.02 a common share. The $0.10 quar-

terly dividend rate may be supplemented by a year-end extra.

The container division of company has operated profitably over two decades and expects to expand operations. The furniture division, which previously turned out automobile body woodwork and furniture stock, will concentrate now on furniture under the company's own brand name and will sell direct to retailers. Other products, including kitchen cabinets and some remaining wooden box business, are expected to be in active demand. Further expansion is also expected in the plywood division. The company expects to supply most of its own furniture plywood and sell a large portion of other plywood production through the warehouse of U.S. Mengel Plywoods; jointly owned by Mengel Co. and United States Plywood Corp.

The volatile Mengel common stock is speculative as past record was not impressive but the post-war outlook for company appears favorable.

Aviation Corp.

I hear that Aviation Corp. is expanding its business. Will you please tell me what lines they are interested in?

—J. B., Pasadena, Calif.

Aviation Corporation recently contracted to purchase controlling interest in New Idea, Inc., manufacturers of a wide range of farm machinery and implements.

This follows purchase of control of Crosley Corporation in June 1945, makers of household appliances and owner of Radio Station WLW.

Under terms of purchase of New Idea, Inc., Aviation Corp., will acquire in excess of 50 per cent of 272,000 outstanding shares at a price of $30 a share. The shares are being purchased under agreement with the four managing officers of the Company. Upon consummation of this transaction a similar offer will be extended to all other shareholders for a thirty-day period. Both transactions will be for cash and will involve a total commitment of $8,160,000, if all shares are tendered.

In addition to farm implements, Aviation Corporation's present manufacturing divisions and associated companies include broad interests in aviation, shipbuilding, radios, refrigerators and other household appliances, automobile bodies, kitchen equipment, radio broadcasting and electronics.

Aviation Corporation's manufacturing units include Lycoming, Republic Aircraft Products and Spencer Heater divisions, and its wholly-owned subsidiary, American Propeller Corporation. Associated companies are Consolidated Vultee Aircraft Corporation, The Crosley Corporation, New York Shipbuilding Corporation and American Central Manufacturing Corporation.

For the nine months ended August 31st, company reported net income amounted to $2,159,739 equal to 37 cents each on 5,793,513 shares. This compares with $3,199,871 or 55 cents a share, in the corresponding period of the previous year. If adjusted to provide for renegotiation refund on the same basis as the 1944 fiscal year, the earnings for the 1944 period will have been reduced by $935,000 to $2,264,871 or 39 cents a share. Net sales for the nine months totaled $25,020,178 compared with $44,853,547 adjusted of a year ago.

Aviation Corporation is considering public distribution of approximately 236,000 shares of American Airlines, common stock. Company owns about 22% of the airlines outstanding stock and under Civil Aeronautics Board order, Aviation Corporation may retain about 4% of this stock and dispose of the balance.

On October 18, stockholders of Aviation Corporation voted to create an authorized issue of 500,000 shares of new no par preferred stock, increase authorized $3 par capital stock from 7,500,000 to 10,000,000 shares, and redesignation of present capital stock as common stock. An initial series of 300,000 shares of new convertible preferred has been registered with the SEC of which 289,675 shares will initially be offered to common stockholders through subscription rights expected to expire early in November.

S. H. Kress & Co.

As I am primarily interested in a steady income, should I retain S. H. Kress & Co. common stock at present market.

—T. P., Dayton, Ohio

S. H. Kress & Company common stock is a suitable investment for those seeking a stable income, but appreciation prospects are limited.

This company operates 243 variety stores, selling merchandise in the 5-10-25 cent range. About two-thirds of the stores are located in southern and western states, where population is increasing at better than average rate.

Sales have shown a steady increase from 1938 when they totaled $86.8 million to $127.9 million in 1944.

As sales consist of low priced items, mainly of every day necessity, demand should continue at a favorable level. The company has expansion plans to open new stores as good locations become available.

This common stock earned $2.25 a share in 1944 compared with $2.16 a share in 1943. The current year's earnings should compare favorably. The company has paid consecutive dividends for 27 years. The present rate of $1.60 annually has been paid for the past eight years.

Financial position is satisfactory. On December 31, 1944 current assets amounted to $39.8 million which included cash and equivalent of $25.6 million, compared with current liabilities of $18.7 million. Net working capital was $21.1 million. Redemption of $9.1 million of special preferred stock accounted for the decline in working capital of $6.7 million from the year before.

At recent market price of 45, the yield is about 3.8% which is about the average yield for good industrial stocks.

This better grade equity is suitable for retention on the basis of stable income and moderate appreciation possibilities.

Columbian Carbon Company

I own some Columbian Carbon stock that has declined recently, while the general market has advanced. I am somewhat disturbed about this, is there any recent development to account for the decline?

—A. G., Utica, N. Y.

Columbian Carbon has only declined about four points from the high of the year of 41¾ in October. This stock was split 3 for 1, effective Sept. 21, 1945. As the old stock sold as low as 95¼ this year, the present market price represents a good advance from the low point.

Most stocks rise before a split up, then decline on profit taking, after it becomes effective. There is no recent news indicating that

(*Continued on page* 232)

Keeping Abreast of Industrial and Company News

"A minimum wage of 65 cents an hour now and 75 cents in two years won't seem major price hikes, even when price control is ended", declared Chester Bowles, OPA Price Administrator, testifying before the Senate Committee considering minimum wage legislation. Mr. Bowles added that in the long run, wage boosts would mean lower prices because of increased productivity.

Frank R. Schwengel, president of the Distilled Spirits Institute, told the National Alcoholic Beverage Control Assn.: "The war's end has not immediately eased the shortage of whisky and it may be years before supplies are restored to pre-war status."

War, apparently, sharpens the appetite. Henry A. Bullis, president of General Mills points out that American people ate approximately 11 per cent more per capita than they did in the pre-war period. "Today food expenditures account for 31 per cent of total consumer expenditures compared with 26 per cent in the pre-war period. The food industry of the country now faces not only tremendous demand from other countries, but an expanding market right here at home," he declared.

"Momentous problems" will confront the nation in coordinating the new synthetic rubber industry with supplies of Far Eastern plantation rubber, declared Robert Wilson, vice president of Goodyear Tire & Rubber. He further points out that within two years the United States has created a synthetic rubber industry with an annual production capacity of 1.2 million tons. Use of synthetic rubber as compared with natural rubber has jumped from one per cent in 1941 to 85 per cent this year.

Dr. Beardsley Ruml, chairman of the board of R. H. Macy & Co., defines business as "another form of private government". He called upon business to serve the cause of freedom by finding "its own place harmoniously in the pattern of controls from which the order and certainty of a free society must be derived."

Lew Hahn, general manager of the National Retail Dry Goods Assn., handed down a strong indictment of OPA. "Current OPA pricing policies," he said, "often do not allow established manufacturers to produce the things that consumers need so badly, yet permit liberal price ceilings for newcomers who make inferior goods. For this reason, the country is not getting good sound merchandise. Consumers are obliged to pay unnecessarily high prices for goods of inferior quality. Meanwhile plants which could be pouring forth great quantities of badly needed merchandise are being diverted to other production."

General Leonard P. Ayres, well known economist, warns that the present unemployment stems from conditions peculiar to the times and should not be confused with depression unemployment. According to him the present problem arises from the "huge shifting about from job to job and from place to place" of some 24 million people engaged until last August in war work and serving in the armed forces. The General does not believe the problem can be solved by laws and extensive Federal construction projects.

Stockholders of Bristol-Myers will vote Dec. 18 on a proposal to split the company's common shares two-for-one, the new stock to have a par value of $2.50.

Proposed merger of Pennsylvania-Central Airlines and Northeast Airlines is a "natural" and should have the blessing of Civil Aeronautics Board. Northeast will add 1,000 miles to P-CA's present net work and extend the system to New England and eastern Canada.

With an alert eye on sales potentials in Europe and South America, Minneapolis-Honeywell Regulator Co. has established an international trade department to exploit these promising markets.

To stimulate cross-country flying in light planes, Gulf Oil Co. will revive and sponsor the Annual Light Airplane tour to Florida this winter. At least 1200 private planes from all States east of the Rockies are expected to dot the skies. Eleven plane manufacturers will further promote the event.

The entire white paper production of New York & Pennsylvania Co. will be sold to Curtis Publishing Co., and to achieve an increasing degree of integration Curtis has offered to buy for cash a 30% interest in the paper producer. When present expansion plans are completed, production capacity of the mill for magazine paper is expected to be about 100,000 tons annually.

Announcement by Pullman Inc. that it has accepted the bid of 27 railroads to acquire its sleeping car business throws the matter back to the Federal Court for approval. The juridical decision will be interesting in view of strong protests against lodging ownership in the transportation companies.

Another large New York bank, Chemical Bank & Trust Co., has joined the expanding list of those benefitting their shareholders with a stock dividend. Chemical will expand its stock capitalization from $20 million to $25 million, distributing the $5 million increase in the form of new stock.

During the remainder of 1945, Bendix Home Appliances Inc. plans to produce 50,000 washing machines and in 1946 hopes to step-up production to 600,000. Bendix dealers already have accepted down payments for over 573,000 of these products, highlighting the genuine strength of latent consumer demand.

A vast expansion in the use of color photography by amateurs is expected by Eastman Kodak Co., through drastic price cuts for film and a new process whereby time for picture processing may be reduced to ten minutes.

To increase distribution of fibre board products, Woodall Industries has purchased two Chicago firms, Service Industries, Inc. and Service Products Co. with combined annual sales of $2.5 million.

According to the Rubber Manufacturers Association, production of tires for civilians is dragging along at 35% below capacity. The industry needs 7000 more workers at once, and absenteeism is presenting a serious problem.

For the first year in history, reports Edison Electric Institute, the average annual use of electricity in the naton's homes has reached 1200 kwh. Figuring 1913 cost of living at 100, this mark now stands at 185, but electricity costs had dropped to 40 in September, 1945.

First flying refrigerator ever employed, a Douglas DC-3 specially equipped for United Airlines, recently left California with fruits and flowers, took on celery and carnations at Salt Lake City, then unloaded in New York and proceeded to carry 2½ tons of fish from Boston to Chicago, finally returning to its home port with a load of Lake Superior whitefish.

Sharon Steel Corporation hopes to gain an improved competitive position by its purchase of the Farrell Works of Carnegie-Illinois Steel Corp., immediately adjacent to its own finishing units. By this deal Sharon will get two blast furnaces and 15 open-hearth ones, plus other facilities.

Officially back on the market after a four-year lapse are the new post-war electric trains of Lionel Corporation, along with plenty of paraphernalia to displace the family furniture and to please males of all ages.

Imports of hair nets — made of real hair — will be resumed on a large scale from China. What a sizeable business this promises to be is shown by plans of Venida Hair Net Co. to spend $500,000 for advertising and to import 160 million of the nets to promote tidiness, not overlooking potential profits.

A peacetime order for $7 million would gladden anybody but in these critical times it looks especially good to Glen Martin Aircraft Co. Source of this encouraging business are the commercial airlines, seeking new transport planes.

Meaning of Britain's Trade Agreements with Europe

(*Continued from page* 200)

mentioned, the nature of the British financial agreements with the three Near Eastern countries differs considerably from the pacts made with the Western European nations. The agreements with Egypt and Iraq are the first two pacts with members of the sterling area. Under the agreement, the two countries are allocated for the calendar year 1945 a certain maximum of American and Canadian dollars, Swiss francs, Swedish kroner and Portuguese escudos. Egypt's share is to be the equivalent of 10 million Egyptian pounds (roughly about $42,000,000) and Iraq's share is to be 3½ Iraqi dinars (excluding oil company requirements), equal to about $14 million. As the Federal Reserve Bank of New York points out in its September Letter, hese allocations do not take into account the dollar (and other hard currencies) contributions made by these countries to the sterling pool. Irap, because of its petroleum exports usually contributes more than it demands. Egypt has usually an import trade balance with us and, consequently, contributes fewer dollars than it demands. The exceptions were the war years, when our military spent considerable dollar amounts in Egypt, which then were turned over to the pool and contributed to the building of the blocked pound sterling balance, of which Egypt now owns around £350,-000,000.

The dollar (and hard currency) pool originated in the early days of the war, when the sterling area nations agreed to sell their foreign exchange income to Great Britain and to reserve it only for the purchasing of the most essential supplies. The exception was South Africa, which preferred to hold gold to sterling assets. In order to keep the demands of the various members of the sterling area to their essential needs, constant discussions and exchange of information were going on among the member nations. While there was no dictation from London on import policies of various sterling area members, some over-all control was, nevertheless, exercised by the inter-allied combined boards such as the Combined Shipping Adjustment Board, the Combined Production and Resources Board, and the Middle East Supply Center. The United States was, or in some cases still is, a member of these agencies and had a part in determining how dollars available to the sterling area should be spent during the war.

With the exception of a certain minimum reserve, all the available American dollars (and other hard currencies) were spent during the war presumably for the most essential supplies. How will these foreign exchange resources be spent from now on? We will have less and less to say about it as various combined Boards of which we were the members are dissolved.

There is no doubt that all the dollars will be spent. But will they be allocated to the economicalley undeveloped countries such as Egypt or India? In that case our exports of machinery, motor vehicles and other manufactures would benefit. Or will the British be able to persuade the other members of the sterling area that the dollars should be used for the purchases of cotton and other industrial raw materials from this country, processed in Great Britain, and then resold within the sterling area? To quote again the Federal Reserve Bank of New York, the decision how the available dollars (and hard currencies) are to be spent from now on will not only determine the broad economic policies of the sterling area, but will influence the character of our export without our being able to do much about it.

As Professor James M. Landis pointed out in an article entitled "Middle East Challenge" (Fortune Magazine, September 1945), even if ideal operation of the sterling area controls is assumed, they will produce restrictions on our exports. They will eliminate competition in terms of quality and price between us and Great Britain. London will ultimately determine what can be imported from us. As more goods are pro-

(*Please turn to page* 230)

British Trade and Monetary Agreements—Review

WESTERN AND NORTHERN EUROPE	Date	Overtdraft facility extended by Great Britain (In Sterling)	Overdraft facility extended to Great Britain (in nat'l cur.)	Total Mutual Overdraft facilities extended (Dollar equiv.)	Rate Fixed per £	Duration
Belgium	Oct. 1944	£ 5,000,000	Bfr. 883,000,000	$ 40,000,000	176.76	3 years
France	Feb. 1945	£100,000,000	F.fr.20,000,000,000	800,000,000	200.00	1 year
Sweden	Mar. 1945	no limit	no limit	200,000,000(a)	16.90	5 years
Denmark	Aug. 1945	no limit	no limit	70,000,000(b)	19.34	5 years
Netherlands	Sept. 1945	£ 5,000,000	Fl. 53,500,000	40,000,000	10.69	n.a.
Norway	Nov. 1945	n.a.	n.a.		20.00	n.a.
CENTRAL EUROPE						
Czechoslovakia	Nov. 1945	£ 5,000,000	(loan)	20,000,000	202.00	n.a.
NEAR EAST						
Egypt	Jan. 1945	Provided with maximum £E13,000,000		($54,000,000)	in hard)	1 year
Iraq	May 1945	Provided with maximum Din.3,500,000		($14,000,000)	currencies)	1 year
Turkey	May 1945	Allowed to use up to 20% of sterling holdings for the purchase of hard currencies				

(a)—Maximum transitional Swedish accumulation estimated at £40,000,000, British at £10,000,000.
b)—Maximum transitional Danish accumulation estimated at £12,500,000, British at £ 5,000,000.
(c)—Including £E3,000,000 provided for the purchase of foreign wheat.
n.a.—Not available.

Meaning of Britain's Trade Agreements with Europe

(*Continued from page* 229)

duced within the sterling area, our opportunity to supply them will diminish. The Anglo-Egyptian pact, in fact, anticipates such a development, for it explicitly states that "when the supply situation within the sterling area improves, so that the area can supply the commodities in question, *no further dollars shall be made available for the purpose.*"

The British Agreement with Turkey is essentially an extension of the prewar and wartime bilateral and payment agreements and aims, like the Western European pacts, at facilitating the resumption of commercial and financial relations. However, the currency stabilization feature is lacking and no limit is placed upon either country's holdings of the other's currency. The main provision of the agreement is that all payments between Turkey and the sterling area are to be made in their respective currencies through special, supervised accounts. These balances are not convertible into third currencies (cannot be used to make payments elsewhere), except that up to 20 per cent of Turkey's holdings of sterling may be used to buy dollars (or other hard currencies), but at the discretion of the British authorities. Similar agreements existed before the war with a number of Western Hemisphere countries (Argentina, Peru, Chile, Uruguay and Brazil), and the Turkish pact is clearly an indication that these pacts, too, may be revived. Like the Western European agreements, the Anglo-Turkish pact is to be reviewed if the participants become party to an international monetary agreement.

What, then, may be said in conclusion? In arranging the financial and trade pacts, the British have kept an eye on all possibilities. Should the International Monetary Fund and the World Bank be established and an agreement reached with the United States on the freeing of world trade and the removal of exchange restrictions—and at the time of this writing this seems to be practically an accomplished fact — then the various British agreements described above will become in due time but interesting steps toward the re-establishment of the exchange of goods during the difficult post-armistice period. The failure to agree with Great Britain, however, would before long confront us with a greatly enlarged sterling area and a worldwide network of bilateral trade and payment agreements.

Special Survey of Longer Range Market Factors

(*Continued from page* 187)

Dow at 192, is about 3.3%. At the 1937 high it was nearly 4.2%; at the 1929 high, less than 1.9%. The comparison with the 1937 return seems bearish, at first glance; but the reverse is true. We were at a cyclical peak in earnings and dividends in 1937. Present earnings and dividends, due largely to EPT, are subnormal in ratio to volume. If we can expect, say, a $10 dividend on the Dow, this is now capitalized at 5.2%. If an $11 dividend, it is capitalized at 5.7%. In view of the substantial decline in long term interest rates since 1937, dividends should be worth proportionately more than in 1937. However, on the same valuation as at the 1937 market high, the $10 dividend projection would warrant a price of 238 for the industrial average; the $11 dividend projection, a price of about 262. Just as an oddity for the record, these projections on the basis of valuation of dividends at the 1929 market high would work out to a 540 level for the Dow industrials on a $10 dividend, 594 on an $11 dividend.

However, the going wages of money, as indicated by average yields on high-grade corporate (long term) bonds have been reduced by 20% from their 1937 average. Allowance has to be made for this in any reasonable projection, even on a hypothetical basis so far as the underlying earnings figures are concerned. With this adjustment, and assuming continuation of the present level of interest rates, the calculations made in the preceding paragraph become 297 for the Dow average on a $10 per share

(*Please turn to page* 232)

LOW PRICED UTILITIES REAPPRAISED

(Continued from page 224)

about 50c on the usual price-earnings basis. Hence the present price seems to be some three times the logical value. Even if the plan should be overthrown and better terms obtained for the common, it is difficult to see any substantial profit possibilities except in the preferred shares.

Middle West has made considerable progress toward "unscrambling the eggs." It was an Insull holding company and as such had many ramifications. A substantial part of the original system is being liquidated, and another part will be distributed to stockholders, with the balance retained as a legitimate holding company system. Last year the company paid $2.50 (a good part of which was proceeds of liquidation) and another substantial distribution appears likely in the near future. The stock appears undervalued on the basis of potential values in its portfolio.

National Power & Light is one of the most substantial equities in the low-priced holding company field—there are no bonds or preferred ahead of the common, and distribution of assets appears likely in 1946. Stockholders are being given rights to subscribe to the issuance of additional common stock of its largest subsidiary, Pennsylvania Power & Light; it is estimated that they may be worth in the neighborhood of $2. Including the rights, it is thought that the stock might eventually be worth $18 to $20 since substantial tax savings will be available next year.

Ogden Corp. sold its principal asset—the equity interest in Laclede Gas—earlier this year, and is expected to make a cash distribution of about $3 a share which would reduce the present price of 5½ to around 2½ ex-dividend. The company will retain a number of miscellaneous assets, some of which pay dividends, but it is very difficult to figure their eventual value, particularly those of the two small utility holding companies which need recapitalization. However, judging from the current popularity of low-priced issues, there may be some appreciation possibilities.

Philadelphia Co. is a sub-holding company in the Standard Gas & Electric system. Controlling the important Duquesne Light, together with miscellaneous traction and natural gas interests, it has paid common dividends for 47 years, and is the backbone of the Standard Gas system. With estimated tax savings of about 35c a share added to its present earning power of about $1, the stock appears to have moderate appreciation possibilities.

United Corp. has been working on a program to retire its preferred stock through exchange offers, which has been quite successful thus far. The management has been participating actively in the solution of the integration problems of other holding companies in which it is interested, with favorable results for its own portfolio. The next major problem is the recapitalization of Public Service of New Jersey, in which it has a very important interest. It is thought that a program may eventually be developed for Public Service which may substantially increase the value of United Corp.'s investment, and this may be reflected in appreciation of United Corp. common. Several years ago when utility stocks were selling at relatively low levels, William Hickey (who later became President of the company) startled Wall Street by asserting in an SEC hearing that he thought some day United Corp. common might be worth $6. Perhaps this forecast may prove conservative over the next year or so (the stock is currently around 4½).

Projecting Full Year's Earnings for Individual Earnings

(*Continued from page* 198)

quarter net per share was reported at 78 cents, of which only 36 cents arose from operations. In the September quarter of 1944, net per share was reported as 90 cents and after all adjustments, General Motors net for the first nine months of 1945 appears as $3.20 per share compared with $2.68 for the relative period in the previous year.

Well sustained prosperity among the petroleum processors during the third quarter is mirrored by more than one report of substantial improvement in earnings. For example, Standard Oil Co. of California shows $1.15 per share net against 86 cents per share earned in the third quarter of 1944, boosting nine months net for the current year to $3.52 compared with only $2.21 for the same period last year. Skelly Oil Co., also, shows a rise in third quarter net to $2.13 per share against $1.91 in 1944. But Tide Water Associated Oil Co. was not quite so fortunate because net per share dipped slightly to 68 cents per share from 79 cents reported in the third quarter of 1944. Net of this concern for nine months, however, displays an upward trend, with $1.90 against $1.69 per share last year.

Reference to the appended table will disclose other instances, like Parke Davis, Marshall Field & Co., Columbia Broadcasting Co., General Foods and Coca-Cola where less involvement in military production has resulted in improved earnings regardless of the general transitional ordeal. An outstanding example of able reconversion from war production to civilian output, with resultant benefit to earnings, is that of Electrolux, which in spite of large military orders has by degrees been expanding sales of vacuum cleaners. This concern's third quarter net rose to 17 cents per share against six cents in 1944. Net of Sterling Drug Co. also has an upward trend, rising to 63 cents per share during the September period and boosting the total for nine months to $2.11 against $1.82 earned in the same period for 1944.

The nine months earnings statement of E. W. Bliss Co. is especially interesting, because it illustrates a number of the forces currently bearing down upon earnings and steps which may be taken to alter results for the full year. This machinery manufacturer reports a net operating loss during the period of $359,725, but with potential adjustments ahead and a strong treasury position has continued to pay dividends on its common. At the end of the current quarter, the company expects to charge large sums to accumulated reserves and to receive substantial tax refunds, the combined effect of which may produce an entirely different picture for the full year.

During the current final quarter, net earnings of industry are likely to show a still wider divergence in individual cases than has occurred in the third quarter. Barring possible interruptions due to strikes, there seem to be few reasons why concerns with minor reconversion problems should not continue to report good earnings, as was their experience generally in the third quarter. But reconversion for many concerns has been dragging and many others more fortunate in this respect are experiencing great difficulty in getting into break-even production, due to shortage of manpower and inability to get needed materials. The flood of strikes, actual or threatened, is certain to delay the return to normalcy of many a concern, perhaps for months beyond the hoped-for date, as a lag in one industry tends to hold back dozens of others perhaps. For one reason or another, operating profits of many concerns will probably suffer a drastic shrinkage in the December quarter and if red ink appears, it should occasion little surprise.

Answers to Inquiries

(*Continued from page* 226)

adverse factors are in the offing, and as the outlook for this company is good, this equity will probably advance again. We therefore, recommend retention.

Special Survey of Longer Range Market Factors

(*Continued from page* 230)

dividend, and 327 on an $11 dividend rate. The writer is not predicting that either of those levels will be reached. The point made is that such levels would not be more extreme, in relation to indicated dividend potentials, than was the 1937 high in relation to that year's dividends.

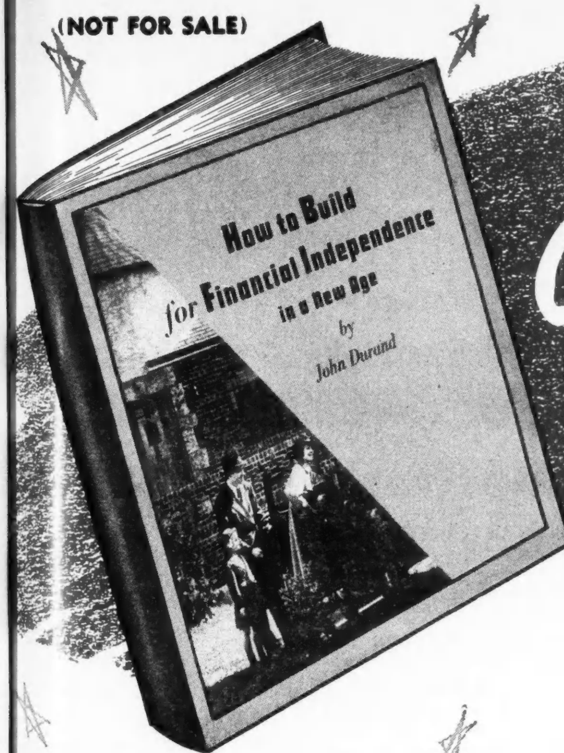
We have said nothing about asset values. As a generality, these have been sharply increased, as compared with prewar, including 1937. To the extent that they have any significance in appraising stock values, stock prices—other things being equal—should be proportionately higher than in 1937. However, the writer is not inclined to give this matter any weight in the present discussion. It is largely theoretical. The stockholder can not realize on the assets of any company except in liquidation, and whether they will fetch book value in liquidation is far from certain. There is no demonstrable ratio between book values and market prices. Some of the best and highest-price stocks have relatively low book value. Some of the most speculative (rails are typical) have high book value.

It is reasoned here that what the stockholder may reasonably expect to get—i.e., the dividend rate — should have the heaviest weight in stock price calculations: more weight, in fact, than the earnings. On this line of thought, considerable confidence is felt both in the method of projection and in the indicated market possibilities as heretofore cited in the discussion of dividend potentials.

To check this approach further —and, at this point, with chief emphasis on the validity of present prices—let us tone down the dividend projections and see how it comes out. On an $8 dividend rate, which is less than that actually paid in 1937, the industrial average would be worth 200 on a 4% capitalization. On a $9 rate, only 10% more than the actual 1937 rate, the figure would be 225 on a 4% capitalization. Thus examined, it is impossible to con-

(*Please turn to page* 237)

(NOT FOR SALE)



Our Gift To You

Extra Help for Epochal 1946!

—Investment Guidance for The Whole Family

VALUE $2.50
Private Edition

How to Build *for* Financial Independence in a New Age

By John Durand

Free

—Especially Designed To Serve You, this book deals with the realities of today . . . the new basis for investment and the means and avenues for employment of venture capital soundly placed . . . as we move from swiftly paced transition to peacetime expansion . . . for profit — income — capital growth — fortune building.

—For Your Son, Your Daughter, for those in whom you are interested . . .it will supply a link between earnings and savings . . . in this age in which men and women are trained to earn a living but lack the knowledge to manage their funds.

Chapters will be devoted to building for financial independence ... even from small beginnings ... at all ages ... and through gradual building up of reserves, to supply a secondary income ... bringing security and confidence ... **that means realization of your goals ... and dreams.**

Introduction

—The World Today . . . Domestic Scene
—Government in Industry and Finance
—Our National Debt . . . Interest Rates, Taxes, etc.
—Industry and Trade at Home and Abroad
—New World Industrialization; Growing State Capitalism Abroad; Political Aspects; Effects on U. S.

PART I—Basis for Investment in This New Epoch

—Taking Stock of Yourself; Your Income; Your Expenses; Your Surplus
—What You Want Out of Life
—Building Capital Through a Savings Account . . . Through Insurance
—Insurance to Meet Objectives . . . Educating Your Children . . . Family Health . . . Travel . . . Retirement
—Renting vs. Home Owning; Financing a Home; Real Estate as an Investment; Estate Building; Making a Will
—Methods of Investing in Securities with Small Sums

PART II—Laying Out Your Investment Program

—The Place of Bonds and Preferred Stocks . . . for Income . . . for Appreciation
—Common Stocks for Investment . . . Where More Desirable Than Bonds . . . For Speculation . . . For Capital Building
—How Your Capital Should Be Allocated

PART III—How to Invest for Income; for Capital Growth; for Fortune Building

—Great Companies . . . Where Chiefly on an Investment Basis . . . Where Possessing Extraordinary Profit Potentials . . . For Short Term . . . For Longer Term
—Small Companies . . . Weighs Varying Status . . . Where Marginal . . . Where Low-Priced for High Capital Gains
—Large and Small Companies of Fortune Building Type . . . for Venture Capital
—Characteristics of **"Inflation Hedge"** Stocks

PART IV—Programs to Meet Your Objectives; With Specific Selections

—Suggestions for Men and Women . . . Young and Old:
—For Servicemen Starting Anew
—Programs for Personal Annual Incomes of:
$4,000 — $7,000 — $10,000
—Programs for Accumulated Funds of:
$5,000 — $15,000 — $25,000

—Building for Financial Independence

Through Savings — Insurance — Investments
Estates of $25,000 — $50,000 — $100,000

Special Notice! **This work will be continued in our new feature —**
Building Your Future Income Department

Expansion Trends in the Publishing Industry

(*Continued from page* 202)

hours through increased time spent for travel, motoring, the movies and radio, but many people read on the trains and the automobile inherently is a time saver. Best customers of the magazine publishers are women between the ages of 25 and 35, although readers of both sexes are plentiful in every bracket above the kindergarten age. Readers in this broad generalization are largely responsible for variations in magazine demand during swings in the national income, but with increasing significance circulation of technical, business, financial, political and social periodicals has shown more consistent growth and stability.

Success among magazine publishers above all is highly dependent upon editorial technique and the development of reader interest. For this reason, constant change is characteristic of the industry, the more firmly established periodicals alert to expand circulation by improved printing processes and broadened reader appeal, for upon proven circulation naturally depends the advertising rate structure. At the end of 1943, there were 24 magazines established during the last quarter century with an ABC circulation of over 500,000 each, but due to competition from a host of smaller magazines, total circulation of the 24 amounted to only about 43 million in the year cited compared with an over-all total of 2.5 billion. As everyone knows, however, the birth and demise of hundreds of new magazines presents a kaleidoscopic picture; during the promising years right ahead many newcomers are likely to enter the field.

From the angle of competition for advertising revenues, newspapers and radio are strongly in the fight with magazines, but the latter appear to have held their own very well so far. Advertising lineage in newspapers for some reason has shown a more or less consistent downward trend ever since 1929, and the Printers Ink index for this branch of the industry has fallen from its peak of 146.1 in 1929 to 104.6 at the end of 1944. In contrast with this performance, the Magazine Index which stood at 148.4 in 1929 had risen to 154.1 at the end of 1944 and, as has been stated earlier in this article, has shown a further gain to 189.5 through September, 1945. While measured by total revenues of over $660 million from all classes of advertising, the newspapers get the largest share of all such appropriations, only about $161 million is national in form, according to the National Publishers Association, as compared with $202 million for the magazines. In 1929 national advertising volume of the newspapers was $242 million.

Advertising gains by Radio Broadcasters have been decidedly spectacular during the last decade

Expansion Trends in the Publishing Industry

(*Continued from page* 233)

percentagewise and also in volume, but they started from a relatively low base. As is the case with the newspapers, radio advertising is both local and national, and only the latter forms a rational competitive base in discussing the magazines. According to the NPA survey cited above, advertising volume of the broadcasting chains grew from $19 million in the 1928-30 period to $134 million in 1942-43, national advertising largely supporting the totals shown. By this estimate the magazines at that time still lead in volume by a margin of $68 million, but beyond much doubt this advantage has steadily diminished since then. But while radio may become an increasingly serious contender for the advertiser's dollar the competition is importantly limited by one factor, and that is time. Just so many minutes can be allocated among a possibly growing legion of applicants, and for this reason magazines may win out in the longer term race. And while radio reaches more consumers, its message briefly appeals to the ear only, whereas pictorial advantages and leisurely reading favor the magazines, at least until television in a big way affects the situation.

The good record of the leading magazine publishers in war years, and the fact that the industry has no reconversion problems at all, lends confidence to the assumption that, granted the country enjoys a reasonable period of prosperity after transition, volume and earnings will continue to trend upward for some time to come. Elimination of the excess profits tax may temper the enthusiasm of advertisers to some extent, but on the other hand profit margins of many magazine publishers will benefit from the removal of this tax. Most assuring is the prospect of an affluent public receptive to learn all about the thousands of new goods promised by manufacturers and distributors, and in the magazines will be found the most alluring descriptions. With plenty of paper, improved colors and pictures, and skilled editorial policies, the publishers face an unusual opportunity to progress and that they will make the most of it can be taken for granted, for even in the current year advertisers are expected to exceed the record outlays of 1929, and not until next year will many goods become available.

To illustrate the growth of several leading magazine publishers during war years, we have appended a statistical table which may prove of interest to our readers. In addition, we have included relative figures of American News Co., because of this concern's dominant position in the over-the-counter distribution of magazines. Regardless of where you go throughout the country, American News Co. will see to it that you are provided with your favorite periodical, and how profitable the enterprise has been, both in good times and bad, is shown by an unbroken dividend record since its incorporation in 1917, and one of its subsidiaries, Union News Co., enjoys a similar record way back to 1864. The company has some 300 branches to serve more than 95,000 dealers and also functions as a wholesaler of stationery. Conservative dividend policies have swelled working capital from earnings in recent years although net has been broadly restricted by EPT which equalled $16.72 per share in 1944. At a recent price of 58¾ the yield of the stock is only 3%, but for an issue with marked investment characteristics a price-earnings ratio of 10 to 1 seems very moderate, and with EPT eliminated in 1946, appreciation potentials appear encouraging.

Time, Inc. has achieved an outstanding success in the magazine publishing field since its incorporation in 1922. 1944 circulation of its weekly Time was 1,179,000 and that of Life soared to 3,991,000. Fortune, the $10 a year monthly, has a restricted circulation of 179,000 but its advertising revenues are enormous. Time, Inc. also produces the Architectural Forum and the March of Time radio program. Operations of the company have consistently become better integrated, for it has purchased the Bryant Paper mills in Michigan and a still larger paper maker in Maine. Additionally, the company expects to establish its own printing facilities in the near future. Working capital is exceptionally strong and included among current assets are more than $25 million marketable securities. At a recent price of 111½, yield of Time, Inc. shares is only a fraction above 2%, but the dividend rate of $2.50 a share compares with 1944 per share net of $3.98 after payment of $8.60 per share for EPT, thus disclosing potentials for more liberal treatment of stockholders in due course.

McGraw-Hill Publishing Co., the country's leading producer of business magazines, directories, catalogs and technical books, enjoys an illustrious record and net per share has improved in each year since 1937. Just recently the company has entered the popular magazine field by the purchase of Science Illustrated, its initial edition of which will be 400,000 copies. McGraw-Hill owns its modern plant in New York City and has filed plans for a 35 story addition. Working capital has risen to $6.4 million during the past four years as conservative dividend policies have held distributions to less than half of reported earnings. With the shares currently priced around 29½, the moderate price-earnings ratio of 13.3 to 1 carries considerable appeal, considering the promising outlook for this firmly established specialist among magazine producers. The stock, however, is selling at its highest level since 1930.

Among the best known magazine publishers, Curtis Publishing Co. has shown such consistent progress since 1941 that its status has become decidedly interesting and with the result that its common shares have attracted strong speculative support. With increased supplies of paper and an upward trend in circulation and advertising rates, Curtis may achieve a volume of around $70 million for 1945, perhaps even bettering this record in 1946. Outlook for all the magazines in the Curtis group, including the Saturday Evening Post, Ladies Home Journal, and Country Gentleman, is indeed promising, and the company may benefit from its new publication, Holiday and its recently acquired interest in Bantam Books. All told, the company appears to be in a fair way to regain the dominant position it

lost some years ago, and by recapitalization in 1940 the longer term outlook for common shareholders was much improved. $1.1 million of funded debt has recently been redeemed and arrears on a small amount of outstanding 7% preferred stock could easily be wiped out. While no dividends have been paid on the common for many years, speculative enthusiasm over future potentials has pushed the price up to a peak for 15 years past of 23½, equal to 167.4 times net per share in 1944. Coming relief from EPT may alter this ratio next year but potentials appear to have been very liberally discounted.

Summing up, the fundamental position of many magazine publishers was never stronger than at present, and in view of the perspective ahead, further improvement in earnings and dividends is quite likely. In instances which we have discussed, current high prices for shares do not necessarily preclude potentials for longer term appreciation.

Celanese Corporation — An Investment Audit

(Continued from page 208)

virtually no reconversion problems. This is borne out by the fact that it was the first of the plastic producers to introduce a new plastic—Forticel—ready for commercial manufacture.

Such being the case the company has been able to proceed promptly with its post-war plans. Confident that Celanese products will capture a steadily increasing share of their potential market, extensions and improvements are to be made in all plants. Capacity for spinning staple fibre into yarn will be doubled at the Burlington, N. C., plant and at Bridgewater, Va., a new plant for warp-knitting, now under construction, will be ready by next Summer. Cellulose acetate producing facilities at the Celco, Va., plant are being expanded materially. At Summit, N. J., the company is in the process of concentrating all of its research and experimental in a group of school buildings acquired several months ago. Upon completion of this project, it is expected that approximately 500 scientists, chemists, and skilled technicians will be at work there.

But the most ambitious of the company's post-war undertakings has been only recently announced. Negotiations are under way for the acquisition of the Tubize Rayon Corp. one of the smaller but well established producers of synthetic fabrics. Tubize produces both viscose and acetate yarns and knitted fabrics. Yarns are produced at the company's plant at Rome, Ga., while knitting, dyeing and finishing operations are conducted at a plant in Hopewell, Va. Of the company's total sales in 1944, fabrics contributed 53 per cent and yarn 47 per cent. Of total yarn production 40 per cent was used in the company's own knitting mills.

It has been tentatively announced that acquisition of Tubize will be on the basis of an exchange of shares—two shares of Celanese common stock for three shares of Tubize common. At last reports, Tubize had 70,000 shares of $4.75 preferred stock and 702,856 shares of common stock outstanding. Some weeks may elapse before the acquisition is completed but, to point out the obvious. it is a logical step in the progress of Celanese and one which will effectively serve to further fortify the company's strong trade position.

In 1944, net sales of Celanese Corp., attained a new peak, totalling more than $101 million, and in the face of difficulties encountered in obtaining raw materials, and labor work stoppages. Net income of $7,235,189 also was the highest in the company's history, despite a tax bill which was in excess of $13.5 million.

For the nine months ended Sept. 30, last, the company reported net income of $5,630,340, equal to $2.28 a share on 1,579,448 shares of common, compared with $5,298,246 and $2.13 a year. Provision for Federal taxes in the current nine months totalled $9,980,600, or about $1 million more than last year.

The June 30, 1945 balance sheet revealed the company to be in an exceptionally strong financial position. The ratio of current as-

Celanese Corporation — An Investment Audit

sets to current liabilities stood at better than 8 to 1, while cash and Government securities alone were in excess of $39 million, or more than five times current liabilities of $6.8 million.

In October, the company sold $40 million 3% debentures due 1965, and 157,945 shares of common stock were offered to present stockholders at $50 a share, on the basis of one additional share for each ten shares held. Funds thus realized were used to retire $34,289,000 debenture 3½'s and to provide funds for additional plant facilities, estimated to involve an outlay of $25 million. Giving effect to this financing, capitalization, in addition to the debentures, consists of 350,000 shares $4.75 first preferred stock, 148,179 shares $7 second preferred stock and 1,737,393 shares of common stock.

With $40 million in debentures and two sizable issues of preferred stock ahead of the common, the effect is to impart a considerable leverage factor to the junior issue. That is to say, that once debenture interest and preferred dividends are provided for, net income for the common stock, on a per-share basis, would register sharp gains percentagewise in a period of rising earnings. Conversely, leverage results in intensifying the decline in per-share results when earnings are dropping.

Tax Relief

A potent factor in the 1946 earnings prospects for Celanese is the relief from excess profits taxes. In 1944 excess profits taxes paid by the company, less post-war refund were equal to about $4.50 a share on the present amount of common stock. Moreover, by the end of the current year there will be a total post-war tax refund of some $3 million which will go to swell current assets.

Paying a dividend of 50 cents quarterly, Celanese common stock yields about 3.5 per cent if purchased at recent levels around 55-56, which, in line with the market as a whole, are the year's high. It is not, however, as a medium for income that the shares have their strongest appeal, but as a medium for the investor whose principal emphasis is on capital increment. As such, and as revealed by this audit, it is an issue well backed by the elements essential to successful growth.

Your Home as an Investment

(*Continued from page* 214)

the house. War-built housing is not the best-built in the country. Make sure it's good for something more than the life of the mortgage you will take out.

Opportunities for Income Appreciation in Bonds

(*Continued from page* 218)

the State of Missouri. The preferred issue is not a large one, outstanding in the amount of only 24,396 shares, but the probabilities are that an average size commitment could be made without difficulty. Average earnings coverage for preferred dividends has been adequate. In the year ended Sept. 30, last, net available for preferred dividends was equal to $4.99 a share, comparing with $4.98 a share in 1944, and $4.83 a share in 1943. The issue is callable at $25 a share and is convertible into common stock on the basis of two shares of common for each share of preferred. The common is currently quoted around 6, and no value attaches to the conversion feature at the present time.

As I See It!

(*Continued from page* 183)

the great effort here not to let the Chinese civil war come between us, despite its threatening and highly disturbing aspects. The last link in the chain of western endeavor to come to an understanding with the Soviets was the joint statement on atomic energy offering Russia the possibility of partnership within the framework of a United Nations Organization endowed with sufficient power and prestige to assure all nations that atomic energy shall never again be used destructively. If Russia really wants peace, it is difficult to see how she can ignore this offer.

Once again, the western allies are holding out a friendly hand. Should the Soviets persist in their refusal to avail themselves of the new opportunity, the cause of peace and world harmony will have suffered a serious setback. It is perhaps not too much to say that their action and response will determine whether the world of tomorrow will be a better world or merely an armed camp.

So You Want to Go into Your Own Business?

(*Continued from page* 215)

All of the foregoing faults are closely related and are likely to be found collectively rather than singly. Stated otherwise, if the business neophyte is careful in avoiding one, he will probably be equally careful in avoiding the others.

Special Survey at Longer Range Market Factors

(*Continued from page* 232)

clude that better-grade stocks have too greatly discounted the reasonably indicated longer-term possibilities. If forced to settle on one projection, the writer would allow for a dividend rate of $10 and a capitalization of 3.75%—and consider both reasonably probable, though by no means certain, birds in the bush. If so, the Dow average's potential, on this basis, figures to be 266 before the bull market is over.

The next matter to be considered is "inflation." Within the space limits confronting us, to correlate this properly—and not with the usual vague generalities—with market possibilities is very difficult. The word, unfortunately, has a variety of meanings and applications. The implication most commonly thought of is rising commodity prices, a higher cost of living. There has been much loose talk of "hedging" against these eventualities—that is, protecting capital against loss of exchange value for goods—through purchase of common stocks.

It is open to question whether there is likely to be more than a rather moderate and temporary further inflation in the living costs of the typical investor, as distinct from the official living-cost indexes, which apply to living costs of low-income factory workers. Foods will be somewhat lower in price. Rents, except in new buildings, will be controlled by the Government as long as necessary. Clothing will be in adequate, and competitive, supply within a relatively few months. Durable goods will cost considerably more than before

(*Please turn to page* 238)

Insurance as an Investment

(Continued from page 213)

mother to provide for maintenance and support.

In both cases cited, the disability clause was included. Should the insured become disabled as outlined in the insuring clause by reason of illness or accident, all future premium payments would be waived and the plan would continue in full effect, just as if the individuals had continued making premium payments.

It can be readily realized, then, that the life insurance plan is a "must" to conserve the economic resources for savings of women. Modest beginnings are no deterrent in ultimately establishing a substantial retirement income since the plan is flexible. Whatever their vocation, business women will find life insurance a valuable aid in building capital and in their search for security.

Special Survey on Long Range Market Factors

(Continued from page 237)

the war, but the increase applies to a fairly moderate percentage of total consumer outlay. As if instinctively sensing these facts, the investor talks about "inflation" and the stock market in a quite general way, but shows no significant inclination to apply the hedging theory specifically in the selection of individual stocks, which is the only way it can be applied.

There is not, and has not been, exceptional demand for coppers, oils or other so-called commodity stocks wherein are found the traditional inflation-hedges. On the contrary, these stocks are behind the market. How does persistent strength in utilities square with the inflation theory, as usually—erroneously, this writer believes—applied to the stock market?

Yet from another perspective—and the one of greatest investment significance—inflation does have pronounced meaning for the market. We mean the inflation of the total money supply and, therefore, of investible funds. As far ahead as can be seen the condition will be one of redundant investment funds, low interest rates and the relative scarcity of outlets in the security markets. There can be no great increase in new capital issues, either of bonds or stocks, in view of the strong financial condition of most corporations. That leaves the security investor to buy new issues of government bonds, or, generally speaking, to bid for old corporate securities in the open market.

As investment has taken, and is taking, more and more stock out of the market, the floating supply available for purchase is proportionately reduced. Despite the recurrent recessions—all so far of minimum technical proportions—the generality is that demand can be satisfied only through bidding up prices. The capital gains tax is a powerful influence against taking profits, thus tending to encourage further rise.

To sum up, all visible factors and probabilities seem to suggest materially higher market levels eventually — perhaps greatly higher. Because of the gains tax and the fact that the bulk of the buying is for cash, reactions of more than normal technical proportions appear to require motivation from unexpected news events and do not develop because of internal market conditions. The bull market will last until the over-all "feeling" becomes one of doubt and then fear, discounting coming economic-financial deflation. The time element in this latter contingency, which is certain ultimately to become a fact, is now quite beyond prediction. It probably will develop many months before the catching-up activity has run its course.

In the meantime, it would be overoptimistic — to say the least —to assume that all will be clear sailing in the market despite undeniably bullish longer term indications. Many imponderables enter the equation, especially over the medium term, that can and will make for intermittent hesitation if not sizeable temporary reactions. Current labor strife has been injecting a good deal of hesitation. The market's sustained advance without any sizeable reaction for some time, and increasing evidence of mounting and steadily more indiscriminate speculation has raised technical questions that some day must be faced. Though the market has all the earmarks of looking beyond the transitional phase to postwar boom potentials, it is far from immune to transitional difficulties, should they develop in a way as to constitute a serious setback to smooth reconversion and inject more than superficial doubt as to the immediate course ahead.

Can Inflation Be Controlled Today?

(*Continued from page* 195)

period, that immediately ahead.

Price controls now are counted upon to restrain prices until mid-1946; thereafter mounting competition, as civilian production swings into high gear, is expected to retard further rises. Yet for perhaps one to two years (in some instances longer), demand for consumer goods will almost certainly remain out of balance with supply, and while this lasts, our defense against inflation cannot be relaxed. Existing vast holdings of liquid assets unquestionably do promote spending and speculation. The antidote is "going slow" with further tax reduction and the stimulation of saving. To fight overall inflation during the restocking boom, these two points are essential for economic stability.

In spite of it, further moderate price inflation will be more or less inevitable, not only because of the trend of Administration policy in the wage question but because probably no amount of counteraction can fully and completely cope with existing pressures. There may be restriction of consumer credit, steps to curb real estate and securities speculation, regulations holding down inventory hoarding and other moves to hold down the lid. But present-day liquidity is such that some of these moves can be no more than half measures.

As to the cost of living, we must be prepared to see another 5% rise within the next half year. By mid-1947, it will probably be 10% above today's stand but then, expanding production should take hold and call a halt. For food prices alone, no further increases are anticipated; a slow decline may well occur.

Steadying Factors

Steadying factors in the outlook are not only our productive capacity, a continued high tax structure and temporary retention of controls in specific danger areas but the relative lack of inventory hoarding and the probable absence of danger of a spending spree in the capital goods field. Government policies, both fiscal and in the wage-price sector, remain of course of overriding importance—the latter perhaps the greatest immediate question mark.

If these policies are constructive, inflation can be controlled and held within a loosely defined but hardly dangerous limit. If undue experimentation is resorted to, control may easily slip out of hand. To that extent, uncertainty exists. What can the investor do about it?

Inflation is very much on his mind — as recent stock market action proves—and of late he has been thinking a good deal about inflation hedges. People anxious to preserve their fortunes have been widely buying real estate, art treasures, diamonds, jewelry, furs, silverware and similar things — at increasingly inflated prices. Real estate of course is a treacherous hedge because of rent ceilings and taxes. Heavily mortgaged properties are probably more desirable than those bought for cash, because it is to the advantage of debtors to pay off mortgages in depreciated money. Art treasures, jewelry, etc., for a while will serve the purpose well enough but the time will come when it may be difficult to sell without loss. Chief drawback is the absence of an organized market.

Gold as Inflation Hedge

The ideal inflation hedge of course is gold but it's now illegal in the U. S. for individuals to own either gold bullion or specie. The next best would appear to be gold ore in the ground which may be obtained by buying gold shares. Investments of this type have been popular for some time and many gold shares are already generously appraised, thus care must be exercised in such acquisitions. Commodity shares such as coppers, oils, metals, coal, sugars, fertilizer, paper shares and others representing natural resources traditionally have been endowed with inflation hedge characteristics but during the present inflationary phase, this characteristic was in varying degree nullified by price ceilings which prevented price rises and therefore benefits therefrom to the producers. This may change, if and when price restrictions are removed. But it might as well be realized that in a closely regulated economy, no perfect inflation hedge exists.

By and large, good common stocks, attractive even without inflationary phenomena, are probably the best hedge. They are not rationed or held to price ceilings though corporate profits may be affected by price squeezes, but in a real inflationary cycle earnings are bound to spiral upwards with prices. Their attraction lies not so much in the property represented by share ownership (though this can be by no means a negligible factor) but mainly in the productive capacity and resultant earning power of the enterprise. If real inflation occurs, the latter will fairly quickly and closely reflect rising price levels, and so will the price of the stock.

Value of Raw Materials

Shares of integrated steel companies, for instance, combine the advantage of both productive and earning power and ownership of vital raw material deposits such as ore and limestone properties, apart from extensive plant investment. In the case of leading steel companies such as U. S. Steel and Bethlehem Steel, this finds expression in an exceptionally high ratio of book value to market price.

Growth companies and companies enjoying rapid turnover also constitute worthwhile inflation hedges. The former hold above average promise of either well sustained or sharply rising volume and earnings under inflationary conditions. The latter have the advantage of being in a position of quick adaptation of selling prices to a rising price spiral. Leverage shares generally, that is shares of companies with large prior debts before the common have some appeal in an inflationary environment because such companies often can retire these debts on advantageous terms—that is with depreciated money — thereby strengthening their financial positions at important savings.

Commodities, in a free market, would be a good inflation hedge, especially if they can be properly diversified, something that might be difficult for the smaller investor. Also, it is not easy to store commodities for the length of time necessary to carry them through the inflation period; it certainly may come expensive if the period is lengthy. Moreover, many commodities are subject to spoilage; presently, most are under some sort of regulation or trading restriction.

prob-
e not
lings
y be
ut in
nings
with
not
epre-
rship
neans
ainly
and
the
oc-
ickly
price
e of

com-
e the
e and
ip of
such
rties,
in-
ding
J. S.
this
tion-
ie to

com-
nover
infla-
hold
ither
ising
in-
atter
g in
on of
price
eral-
anies
e the
n an
ause
etire
geous
iated
ening
npor-

rket,
edge,
perly
night
in-
y to
ngth
them
d; it
ve if
over,
ct to
e un-
n or